

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 19, 2011 (12 weeks)

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-1183



PepsiCo, Inc.

\_\_\_\_\_  
(Exact Name of Registrant as Specified in its Charter)

North Carolina

(State or Other Jurisdiction of  
Incorporation or Organization)

13-1584302

(I.R.S. Employer  
Identification No.)

700 Anderson Hill Road, Purchase, New York

(Address of Principal Executive Offices)

10577

(Zip Code)

914-253-2000

(Registrant's Telephone Number, Including Area Code)

N/A

\_\_\_\_\_  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

Number of shares of Common Stock outstanding as of April 21, 2011: 1,580,653,782

**PEPSICO, INC. AND SUBSIDIARIES**

**INDEX**

	<u>Page No.</u>
<u>Part I Financial Information</u>	
Item 1. <u>Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Statement of Income – 12 Weeks Ended March 19, 2011 and March 20, 2010</u>	3
<u>Condensed Consolidated Statement of Cash Flows – 12 Weeks Ended March 19, 2011 and March 20, 2010</u>	4-5
<u>Condensed Consolidated Balance Sheet – March 19, 2011 and December 25, 2010</u>	6-7
<u>Condensed Consolidated Statement of Equity – 12 Weeks Ended March 19, 2011 and March 20, 2010</u>	8
<u>Condensed Consolidated Statement of Comprehensive Income – 12 Weeks Ended March 19, 2011 and March 20, 2010</u>	9
<u>Notes to the Condensed Consolidated Financial Statements</u>	10-23
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24-39
<u>Report of Independent Registered Public Accounting Firm</u>	40
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
Item 4. <u>Controls and Procedures</u>	41
<u>Part II Other Information</u>	
Item 1. <u>Legal Proceedings</u>	42
Item 1A. <u>Risk Factors</u>	42
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43-44
Item 4. <u>Removed and Reserved</u>	44
Item 6. <u>Exhibits</u>	44

[Table of Contents](#)

## PART I FINANCIAL INFORMATION

## ITEM 1. Condensed Consolidated Financial Statements.

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF INCOME  
(in millions except per share amounts, unaudited)

	12 Weeks Ended	
	<u>3/19/11</u>	<u>3/20/10</u>
<b>Net Revenue</b>	<b>\$11,937</b>	<b>\$ 9,368</b>
Cost of sales	5,447	4,463
Selling, general and administrative expenses	4,739	4,049
Amortization of intangible assets	<u>25</u>	<u>16</u>
<b>Operating Profit</b>	<b>1,726</b>	<b>840</b>
Bottling equity income	–	709
Interest expense	<b>(180)</b>	(154)
Interest income	<u>17</u>	<u>6</u>
Income before income taxes	<b>1,563</b>	1,401
Provision for/(Benefit from) income taxes	<u>419</u>	<u>(33)</u>
Net income	<b>1,144</b>	1,434
Less: Net income attributable to noncontrolling interests	<u>1</u>	<u>4</u>
<b>Net Income Attributable to PepsiCo</b>	<b><u>\$ 1,143</u></b>	<b><u>\$ 1,430</u></b>
<b>Net Income Attributable to PepsiCo per Common Share</b>		
<b>Basic</b>	<b>\$ 0.72</b>	<b>\$ 0.90</b>
<b>Diluted</b>	<b>\$ 0.71</b>	<b>\$ 0.89</b>
Cash dividends declared per common share	<b>\$ 0.48</b>	<b>\$ 0.45</b>

See accompanying notes to the condensed consolidated financial statements.

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(in millions, unaudited)

	12 Weeks Ended	
	3/19/11	3/20/10
<b>Operating Activities</b>		
Net income	\$ 1,144	\$ 1,434
Depreciation and amortization	523	376
Stock-based compensation expense	72	47
Cash payments for restructuring charges	(1)	(26)
Merger and integration costs	55	321
Cash payments for merger and integration costs	(117)	(85)
Gain on previously held equity interests in The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS)	–	(958)
Asset write-off	–	145
Non-cash foreign exchange loss related to Venezuela devaluation	–	120
Excess tax benefits from share-based payment arrangements	(24)	(29)
Pension and retiree medical plan contributions	(59)	(640)
Pension and retiree medical plan expenses	119	113
Bottling equity income, net of dividends	–	46
Deferred income taxes and other tax charges and credits	(98)	(127)
Change in accounts and notes receivable	(271)	(155)
Change in inventories	(77)	309
Change in prepaid expenses and other current assets	(137)	(98)
Change in accounts payable and other current liabilities	(1,028)	(616)
Change in income taxes payable	362	186
Other, net	(83)	(122)
<b>Net Cash Provided by Operating Activities</b>	<b>380</b>	<b>241</b>
<b>Investing Activities</b>		
Capital spending	(433)	(274)
Sales of property, plant and equipment	12	16
Acquisitions of PBG and PAS, net of cash and cash equivalents acquired	–	(2,833)
Acquisition of manufacturing and distribution rights from Dr Pepper Snapple Group, Inc. (DPSG)	–	(900)
Acquisition of Wimm-Bill-Dann Foods OJSC (WBD), net of cash and cash equivalents acquired	(2,428)	–
Investment in WBD	(164)	–
Other acquisitions and investments in noncontrolled affiliates	(28)	(15)
Short-term investments, by original maturity		
More than three months – purchases	–	(4)
More than three months – maturities	6	8
Three months or less, net	57	(6)
Other investing, net	(1)	(3)
<b>Net Cash Used For Investing Activities</b>	<b>(2,979)</b>	<b>(4,011)</b>

(Continued on following page)

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)  
(in millions, unaudited)

	12 Weeks Ended	
	<u>3/19/11</u>	<u>3/20/10</u>
<b>Financing Activities</b>		
Proceeds from issuances of long-term debt	\$ 9	\$ 4,216
Payments of long-term debt	(10)	(7)
Short-term borrowings, by original maturity		
More than three months – proceeds	21	21
More than three months – payments	(64)	(3)
Three months or less, net	1,160	1,010
Cash dividends paid	(769)	(712)
Share repurchases – common	(361)	(735)
Share repurchases – preferred	(2)	(1)
Proceeds from exercises of stock options	218	267
Excess tax benefits from share-based payment arrangements	24	29
Acquisition of noncontrolling interest in Lebedyansky from PBG	–	(159)
Other financing	–	(5)
<b>Net Cash Provided by Financing Activities</b>	<u>226</u>	<u>3,921</u>
Effect of exchange rate changes on cash and cash equivalents	92	(145)
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>	<b>(2,281)</b>	<b>6</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>5,943</b>	<b>3,943</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b><u>\$ 3,662</u></b>	<b><u>\$ 3,949</u></b>
Non-cash activity:		
Issuance of common stock and equity awards in connection with our acquisitions of PBG and PAS, as reflected in investing and financing activities	–	<u>\$ 4,451</u>

See accompanying notes to the condensed consolidated financial statements.

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET  
(in millions)

	(Unaudited)	
	<u>3/19/11</u>	<u>12/25/10</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,662	\$ 5,943
Short-term investments	367	426
Accounts and notes receivable, less allowance: 3/11 – \$157, 12/10 – \$144	6,937	6,323
Inventories		
Raw materials	1,907	1,654
Work-in-process	173	128
Finished goods	1,751	1,590
	<u>3,831</u>	<u>3,372</u>
Prepaid expenses and other current assets	1,715	1,505
Total Current Assets	<u>16,512</u>	<u>17,569</u>
Property, Plant and Equipment	34,797	33,041
Accumulated Depreciation	<u>(14,468)</u>	<u>(13,983)</u>
	<u>20,329</u>	<u>19,058</u>
Amortizable Intangible Assets, net	2,477	2,025
Goodwill	15,824	14,661
Other Nonamortizable Intangible Assets	15,418	11,783
Nonamortizable Intangible Assets	<u>31,242</u>	<u>26,444</u>
Investments in Noncontrolled Affiliates	1,408	1,368
Other Assets	<u>1,117</u>	<u>1,689</u>
Total Assets	<u>\$ 73,085</u>	<u>\$ 68,153</u>

(Continued on following page)

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET (continued)  
(in millions except per share amounts)

	(Unaudited)	
	<u>3/19/11</u>	<u>12/25/10</u>
<b>Liabilities and Equity</b>		
Current Liabilities		
Short-term obligations	\$ 6,256	\$ 4,898
Accounts payable and other current liabilities	10,243	10,923
Income taxes payable	341	71
Total Current Liabilities	<u>16,840</u>	<u>15,892</u>
Long-term Debt Obligations	20,942	19,999
Other Liabilities	6,657	6,729
Deferred Income Taxes	4,972	4,057
Total Liabilities	<u>49,411</u>	<u>46,677</u>
Commitments and Contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(152)	(150)
PepsiCo Common Shareholders' Equity		
Common stock, par value 1 2/3 cents per share:		
Authorized 3,600 shares, issued 3/11 and 12/10 – 1,865 shares	31	31
Capital in excess of par value	4,407	4,527
Retained earnings	37,466	37,090
Accumulated other comprehensive loss	(3,035)	(3,630)
Less: repurchased common stock, at cost:		
3/11 and 12/10 – 284 shares	<u>(16,773)</u>	<u>(16,745)</u>
Total PepsiCo Common Shareholders' Equity	<u>22,096</u>	<u>21,273</u>
Noncontrolling interests	1,689	312
Total Equity	<u>23,674</u>	<u>21,476</u>
Total Liabilities and Equity	<u>\$ 73,085</u>	<u>\$ 68,153</u>

See accompanying notes to the condensed consolidated financial statements.

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF EQUITY  
(in millions, unaudited)

	12 Weeks Ended			
	3/19/11		3/20/10	
	Shares	Amount	Shares	Amount
<b>Preferred Stock</b>	<u>0.8</u>	<u>\$ 41</u>	<u>0.8</u>	<u>\$ 41</u>
<b>Repurchased Preferred Stock</b>				
Balance, beginning of year	(0.6)	(150)	(0.6)	(145)
Redemptions	(–)	(2)	(–)	(1)
Balance, end of period	<u>(0.6)</u>	<u>(152)</u>	<u>(0.6)</u>	<u>(146)</u>
<b>Common Stock</b>				
Balance, beginning of year	1,865	31	1,782	30
Shares issued in connection with our acquisitions of PBG and PAS	–	–	83	1
Balance, end of period	<u>1,865</u>	<u>31</u>	<u>1,865</u>	<u>31</u>
<b>Capital in Excess of Par Value</b>				
Balance, beginning of year		4,527		250
Stock-based compensation expense		72		47
Stock option exercises/RSUs converted <sup>(a)</sup>		(160)		(248)
Withholding tax on RSUs converted		(40)		(29)
Equity issued in connection with our acquisitions of PBG and PAS		–		4,451
Other		8		39
Balance, end of period		<u>4,407</u>		<u>4,510</u>
<b>Retained Earnings</b>				
Balance, beginning of year		37,090		33,805
Net income attributable to PepsiCo		1,143		1,430
Cash dividends declared – common		(762)		(744)
Cash dividends declared – RSUs		(5)		(2)
Other		–		7
Balance, end of period		<u>37,466</u>		<u>34,496</u>
<b>Accumulated Other Comprehensive Loss</b>				
Balance, beginning of year		(3,630)		(3,794)
Currency translation adjustment		617		120
Cash flow hedges, net of tax:				
Net derivative gains/(losses)		8		(48)
Reclassification of net losses to net income		4		18
Reclassification of pension and retiree medical (gains)/losses to net income, net of tax		(3)		136
Unrealized losses on securities, net of tax		(13)		(1)
Other		(18)		–
Balance, end of period		<u>(3,035)</u>		<u>(3,569)</u>
<b>Repurchased Common Stock</b>				
Balance, beginning of year	(284)	(16,745)	(217)	(13,383)
Share repurchases	(7)	(413)	(14)	(940)
Stock option exercises	5	296	7	434
Other	2	89	(15)	107
Balance, end of period	<u>(284)</u>	<u>(16,773)</u>	<u>(239)</u>	<u>(13,782)</u>
<b>Total Common Shareholders' Equity</b>		<u>22,096</u>		<u>21,686</u>
<b>Noncontrolling Interests</b>				
Balance, beginning of year		312		638
Net income attributable to noncontrolling interests		1		4
Contributions from/(distributions to) noncontrolling interests, net		1,348		(352)
Currency translation adjustment		28		(15)
Balance, end of period		<u>1,689</u>		<u>275</u>
<b>Total Equity</b>		<u>\$ 23,674</u>		<u>\$ 21,856</u>

(a) Includes total tax benefits of \$13 million in 2011 and \$18 million in 2010.

See accompanying notes to the condensed consolidated financial statements.



PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT  
OF COMPREHENSIVE INCOME  
(in millions, unaudited)

	12 Weeks Ended	
	3/19/11	3/20/10
Net Income	<b>\$ 1,144</b>	\$ 1,434
Other Comprehensive Income		
Currency translation adjustment	<b>645</b>	105
Cash flow hedges, net of tax:		
Net derivative gains/(losses)	<b>8</b>	(48)
Reclassification of net losses to net income	<b>4</b>	18
Reclassification of pension and retiree medical (gains)/losses to net income, net of tax	<b>(3)</b>	136
Unrealized losses on securities, net of tax	<b>(13)</b>	(1)
Other	<b>(18)</b>	-
	<b>623</b>	210
Comprehensive Income	<b>1,767</b>	1,644
Comprehensive (income)/loss attributable to noncontrolling interests	<b>(29)</b>	11
<b>Comprehensive Income Attributable to PepsiCo</b>	<b><u>\$ 1,738</u></b>	<b><u>\$ 1,655</u></b>

See accompanying notes to the condensed consolidated financial statements.

PEPSICO, INC. AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Basis of Presentation and Our Divisions**

---

***Basis of Presentation***

Our Condensed Consolidated Balance Sheet as of March 19, 2011 and the Condensed Consolidated Statements of Income, Cash Flows, Equity and Comprehensive Income for the 12 weeks ended March 19, 2011 and March 20, 2010 have not been audited. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 and in our Current Report on Form 8-K dated March 31, 2011. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 weeks are not necessarily indicative of the results expected for the full year.

While the majority of our results are reported on a period basis, most of our international operations report on a monthly calendar basis for which the months of January and February are reflected in our first quarter results.

On February 26, 2010, we completed our acquisitions of PBG and PAS. The results of the acquired companies in the U.S. and Canada are reflected in our condensed consolidated results as of the acquisition date, and the international results of the acquired companies have been reported as of the beginning of our second quarter of 2010, consistent with our monthly international reporting calendar. Prior to our acquisitions of PBG and PAS, we recorded our share of equity income or loss from the acquired companies in bottling equity income in our income statement. Additionally, in the first quarter of 2010, in connection with our acquisitions of PBG and PAS, we recorded a gain on our previously held equity interests of \$958 million, comprising \$735 million which was non-taxable and recorded in bottling equity income and \$223 million related to the reversal of deferred tax liabilities associated with these previously held equity interests. Our share of income or loss from noncontrolled affiliates is reflected as a component of selling, general and administrative expenses. See also *Acquisitions* and “Items Affecting Comparability” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

In the first quarter of 2011, Quaker Foods North America (QFNA) changed its method of accounting for certain U.S. inventories from the last-in, first-out (LIFO) method to the average cost method. This change is considered preferable by management as we believe that the average cost method of accounting for all U.S. foods inventories will improve our financial reporting by better matching revenues and expenses and better reflecting the current value of inventory. In addition, the change from the LIFO method to the average cost method will enhance the comparability of QFNA’s financial results with our other food businesses, as well as with peer companies where the average cost method is widely used. The impact of this change on consolidated net income in the first quarter of 2011 was approximately \$9 million (or less than a penny per share). Prior periods were not restated as the impact of the change on previously issued financial statements was not considered material.

Our significant interim accounting policies include the recognition of a pro rata share of certain estimated annual sales incentives, and certain advertising and marketing costs, generally in proportion to revenue, and the recognition of income taxes using an estimated annual effective tax rate. Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw material handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product are included in selling, general and administrative expenses.

## [Table of Contents](#)

The following information is unaudited. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Certain reclassifications were made to the prior year's amounts to conform to the 2011 presentation. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 and our Current Report on Form 8-K dated March 31, 2011, in which we reclassified historical segment information on a basis consistent with our current segment reporting structure.

### ***Our Divisions***

We are organized into four business units, as follows:

1. PepsiCo Americas Foods (PAF), which includes Frito-Lay North America (FLNA), Quaker Foods North America (QFNA) and all of our Latin American food and snack businesses (LAF), including our Sabritas and Gamesa businesses in Mexico;
2. PepsiCo Americas Beverages (PAB), which includes PepsiCo Beverages Americas and Pepsi Beverages Company;
3. PepsiCo Europe, which includes all beverage, food and snack businesses in Europe; and
4. PepsiCo Asia, Middle East and Africa (AMEA), which includes all beverage, food and snack businesses in AMEA.

Our four business units comprise six reportable segments (also referred to as divisions), as follows:

- FLNA,
- QFNA,
- LAF,
- PAB,
- Europe, and
- AMEA.

[Table of Contents](#)

	12 Weeks Ended			
	Net Revenue		Operating Profit	
	3/19/11	3/20/10	3/19/11	3/20/10
FLNA	\$ 2,904	\$ 2,864	\$ 774	\$ 728
QFNA	640	683	214	195
LAF	1,108	983	171	145
PAB	4,531	2,765	558	73
Europe	1,626	1,044	63	118
AMEA	1,128	1,029	146	155
Total division	11,937	9,368	1,926	1,414
Corporate Unallocated				
Net impact of mark-to-market on commodity hedges	-	-	31	46
Merger and integration costs	-	-	(42)	(88)
Venezuela currency devaluation	-	-	-	(129)
Asset write-off	-	-	-	(145)
Foundation contribution	-	-	-	(100)
Other	-	-	(189)	(158)
	<u>\$11,937</u>	<u>\$ 9,368</u>	<u>\$ 1,726</u>	<u>\$ 840</u>
			<b>Total Assets</b>	
			3/19/11	12/25/10
FLNA			\$ 6,072	\$ 6,027
QFNA			1,204	1,217
LAF			4,041	4,053
PAB			31,981	31,622
Europe <sup>(a)</sup>			19,824	13,032
AMEA			5,629	5,569
Total division			68,751	61,520
Corporate <sup>(b)</sup>			4,091	6,394
Investments in bottling affiliates			243	239
			<u>\$73,085</u>	<u>\$ 68,153</u>

<sup>(a)</sup> Change in 2011 relates primarily to our acquisition of WBD.

<sup>(b)</sup> Corporate assets consist principally of cash and cash equivalents, short-term investments, derivative instruments and property, plant and equipment.

## Acquisitions

### *PBG and PAS*

On February 26, 2010, we acquired PBG and PAS to create a more fully integrated supply chain and go-to-market business model, improving the effectiveness and efficiency of the distribution of our brands and enhancing our revenue growth. The total purchase price was approximately \$12.6 billion, which included \$8.3 billion of cash and equity and the fair value of our previously held equity interests in PBG and PAS of \$4.3 billion. The acquisitions were accounted for as business combinations, and, accordingly, the identifiable assets acquired and liabilities assumed were recorded at their estimated fair values at the date of acquisition. Our fair market valuations of the identifiable assets acquired and liabilities assumed have been completed and the final valuations did not materially differ from those fair values reported as of December 25, 2010.

The following table presents unaudited consolidated pro forma financial information as if the closing of our acquisitions of PBG and PAS had occurred on December 27, 2009 for purposes of the financial information presented for the 12 weeks ended March 20, 2010.

	(unaudited) 12 Weeks Ended 3/20/10
Net Revenue	\$ 11,112
Net Income Attributable to PepsiCo	\$ 966
Net Income Attributable to PepsiCo per Common Share – Diluted	\$ 0.58

The unaudited consolidated pro forma financial information was prepared in accordance with the acquisition method of accounting under existing standards, and the regulations of the U.S. Securities and Exchange Commission, and is not necessarily indicative of the results of operations that would have occurred if our acquisitions of PBG and PAS had been completed on the date indicated, nor is it indicative of the future operating results of PepsiCo.

The historical unaudited consolidated financial information has been adjusted to give effect to pro forma events that are (1) directly attributable to the acquisitions, (2) factually supportable, and (3) expected to have a continuing impact on the combined results of PepsiCo, PBG and PAS.

The unaudited pro forma results have been adjusted with respect to certain aspects of our acquisitions of PBG and PAS to reflect:

- the consummation of the acquisitions;
- consolidation of PBG and PAS which are now owned 100% by PepsiCo and the corresponding gain resulting from the remeasurement of our previously held equity interests in PBG and PAS;
- the elimination of related party transactions between PepsiCo and PBG, and PepsiCo and PAS;
- changes in assets and liabilities to record their acquisition date fair values and changes in certain expenses resulting therefrom; and

- additional indebtedness, including, but not limited to, debt issuance costs and interest expense, incurred in connection with the acquisitions.

The unaudited pro forma results do not reflect future events that may occur after the acquisitions, including, but not limited to, the anticipated realization of ongoing savings from operating synergies in subsequent periods. They also do not give effect to certain one-time charges we expect to incur in connection with the acquisitions, including, but not limited to, charges that are expected to achieve ongoing cost savings and synergies.

### **WBD**

On February 3, 2011, we completed the previously announced acquisition of ordinary shares, American Depositary Shares (ADSs) and Global Depositary Shares (GDSs) of WBD, a company incorporated in the Russian Federation, which represented in the aggregate approximately 66% of WBD's outstanding ordinary shares, pursuant to the purchase agreement dated December 1, 2010 between PepsiCo and certain selling shareholders of WBD for approximately \$3.8 billion. The acquisition increased our total ownership of WBD to approximately 77%. The total consideration transferred was approximately \$5.8 billion, which included the \$3.8 billion of cash (or \$2.4 billion, net of cash and cash equivalents acquired), the fair value of our previously held equity interest in WBD of \$0.7 billion and the fair value of the remaining noncontrolling interests in WBD of \$1.3 billion. The preliminary estimates of the fair value of the identifiable assets acquired and liabilities assumed in WBD as of the acquisition date include goodwill and other intangible assets of \$4.8 billion; property, plant and equipment of \$1.2 billion; debt obligations of \$1.1 billion; and other net assets of \$0.9 billion, all of which are recorded in our Europe segment. The preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed are subject to revisions, which may result in adjustments to the preliminary values discussed above as valuations are finalized. We expect to finalize these amounts as soon as possible but no later than by the end of 2011.

Under the guidance on accounting for business combinations, merger and integration costs are not included as components of consideration transferred but are accounted for as expenses in the period in which the costs are incurred. See *Merger and Integration Charges* for details on the expenses incurred during 2011.

On March 10, 2011, we commenced our previously announced tender offers in Russia and the United States for all outstanding ordinary shares and ADSs of WBD for 3,883.70 Russian rubles per ordinary share and 970.925 Russian rubles per ADS. The Russian offer is being made to all holders of ordinary shares and the U.S. offer is being made to all holders of ADSs. The U.S. offer price is equal to the Russian offer share price after adjustment for the four-to-one ratio of ADSs to shares. The U.S. offer price will be converted to U.S. dollars at the spot market conversion rates available to the ADS depositary during the conversion period and paid to tendering ADS holders using the weighted average of the conversion rates, less certain fees under the ADS depositary agreement and applicable taxes, if any. The Russian offer will expire on May 19, 2011 and the U.S. offer is scheduled to expire on May 16, 2011.

**Intangible Assets**

	<u>3/19/11</u>	<u>12/25/10</u>
<b><i>Amortizable intangible assets, net</i></b>		
Acquired franchise rights	\$ 968	\$ 949
Reacquired franchise rights	110	110
Brands	1,526	1,463
Other identifiable intangibles	<u>1,142</u>	<u>747</u>
	3,746	3,269
Accumulated amortization	<u>(1,269)</u>	<u>(1,244)</u>
	<u>\$ 2,477</u>	<u>\$ 2,025</u>

[Table of Contents](#)

The change in the book value of nonamortizable intangible assets is as follows:

	Balance 12/25/10	Acquisitions	Translation and Other	Balance 3/19/11
<b>FLNA</b>				
Goodwill	\$ 313	\$ –	\$ 4	\$ 317
Brands	31	–	1	32
	<u>344</u>	<u>–</u>	<u>5</u>	<u>349</u>
<b>QFNA</b>				
Goodwill	175	–	–	175
<b>LAF</b>				
Goodwill	497	–	1	498
Brands	143	–	1	144
	<u>640</u>	<u>–</u>	<u>2</u>	<u>642</u>
<b>PAB</b>				
Goodwill	9,946	24	9	9,979
Reacquired franchise rights	7,283	20	26	7,329
Acquired franchise rights	1,565	–	2	1,567
Brands	182	8	1	191
Other	10	–	–	10
	<u>18,986</u>	<u>52</u>	<u>38</u>	<u>19,076</u>
<b>Europe<sup>(a)</sup></b>				
Goodwill	3,040	978	150	4,168
Reacquired franchise rights	793	–	32	825
Acquired franchise rights	227	–	9	236
Brands	1,380	3,400	134	4,914
	<u>5,440</u>	<u>4,378</u>	<u>325</u>	<u>10,143</u>
<b>AMEA</b>				
Goodwill	690	–	(3)	687
Brands	169	–	1	170
	<u>859</u>	<u>–</u>	<u>(2)</u>	<u>857</u>
Total goodwill	14,661	1,002	161	15,824
Total reacquired franchise rights	8,076	20	58	8,154
Total acquired franchise rights	1,792	–	11	1,803
Total brands	1,905	3,408	138	5,451
Total other	10	–	–	10
	<u>\$ 26,444</u>	<u>\$ 4,430</u>	<u>\$ 368</u>	<u>\$ 31,242</u>

<sup>(a)</sup> Net increases in 2011 relate primarily to our acquisition of WBD.



## Stock-Based Compensation

---

For the 12 weeks ended March 19, 2011, we recognized stock-based compensation expense of \$79 million (\$72 million recorded as stock-based compensation expense and \$7 million included in merger and integration charges). For the 12 weeks ended March 20, 2010, we recognized stock-based compensation expense of \$74 million (\$47 million recorded as stock-based compensation expense and \$27 million included in merger and integration charges).

For the 12 weeks ended March 19, 2011, we granted 6.4 million stock options and 5.1 million RSUs at a weighted-average grant price of \$63.75, under the terms of our 2007 Long-Term Incentive Plan. We did not grant any stock options or RSUs in the 12 weeks ended March 20, 2010, as our annual equity award was delayed until the second quarter in the prior year, in connection with our acquisitions of PBG and PAS.

Our weighted-average Black-Scholes fair value assumptions are as follows:

	12 Weeks Ended	
	3/19/11	3/20/10
Expected life	6 yrs.	4 yrs.
Risk free interest rate	2.6%	1.6%
Expected volatility <sup>(a)</sup>	16%	18%
Expected dividend yield	2.9%	2.8%

<sup>(a)</sup> Reflects movements in our stock price over the most recent historical period equivalent to the expected life.

**Pension and Retiree Medical Benefits**

The components of net periodic benefit cost for pension and retiree medical plans are as follows:

	12 Weeks Ended					
	<b>Pension</b>				<b>Retiree Medical</b>	
	<u>3/19/11</u>	<u>3/20/10</u>	<u>3/19/11</u>	<u>3/20/10</u>	<u>3/19/11</u>	<u>3/20/10</u>
	U.S.	International				
Service cost	\$ 82	\$ 61	\$ 17	\$ 14	\$ 12	\$ 12
Interest cost	126	98	21	18	20	20
Expected return on plan assets	(162)	(125)	(24)	(22)	(3)	–
Amortization of prior service cost/(benefit)	3	3	–	–	(7)	(4)
Amortization of experience loss	33	25	7	4	3	1
	<u>82</u>	<u>62</u>	<u>21</u>	<u>14</u>	<u>25</u>	<u>29</u>
Settlement/Curtailment (gain)/loss	(9)	–	–	–	–	–
Special termination benefits	10	8	–	–	1	–
Total expense	<u>\$ 83</u>	<u>\$ 70</u>	<u>\$ 21</u>	<u>\$ 14</u>	<u>\$ 26</u>	<u>\$ 29</u>

**Income Taxes**

A rollforward of our reserves for all federal, state and foreign tax jurisdictions, is as follows:

	<u>3/19/11</u>	<u>12/25/10</u>
Balance, beginning of year	\$ 2,022	\$ 1,731
Additions for tax positions related to the current year	41	204
Additions for tax positions from prior years	–	517
Reductions for tax positions from prior years	(29)	(391)
Settlement payments	(87)	(30)
Statute of limitations expiration	(4)	(7)
Translation and other	1	(2)
Balance, end of period	<u>\$ 1,944</u>	<u>\$ 2,022</u>

**Net Income Attributable to PepsiCo per Common Share**

The computations of basic and diluted net income attributable to PepsiCo per common share are as follows:

	12 Weeks Ended			
	3/19/11		3/20/10	
	<u>Income</u>	<u>Shares<sup>(a)</sup></u>	<u>Income</u>	<u>Shares<sup>(a)</sup></u>
Net income attributable to PepsiCo	<u>\$ 1,143</u>		<u>\$ 1,430</u>	
Preferred shares:				
Dividends	–		–	
Redemption premium	<u>(2)</u>		<u>(1)</u>	
Net income available for PepsiCo common shareholders	<u>\$ 1,141</u>	<u>1,583</u>	<u>\$ 1,429</u>	<u>1,582</u>
Basic net income attributable to PepsiCo per common share	<u>\$ 0.72</u>		<u>\$ 0.90</u>	
Net income available for PepsiCo common shareholders	<u>\$ 1,141</u>	<u>1,583</u>	<u>\$ 1,429</u>	<u>1,582</u>
Dilutive securities:				
Stock options and RSUs <sup>(b)</sup>	–	<u>21</u>	–	<u>23</u>
ESOP convertible preferred stock	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>
Diluted	<u>\$ 1,143</u>	<u>1,605</u>	<u>\$ 1,430</u>	<u>1,606</u>
Diluted net income attributable to PepsiCo per common share	<u>\$ 0.71</u>		<u>\$ 0.89</u>	

<sup>(a)</sup> Weighted-average common shares outstanding (in millions).

<sup>(b)</sup> Options to purchase 31.3 million shares in 2011 and 20.7 million shares in 2010 were not included in the calculation of earnings per share because these options were out-of-the-money. Out-of-the-money options had an average exercise price of \$66.85 in 2011 and \$67.02 in 2010.

**Merger and Integration Charges**

In the 12 weeks ended March 19, 2011, we incurred merger and integration charges of \$55 million (\$49 million after-tax or \$0.03 per share) related to our acquisitions of PBG, PAS and WBD, including \$21 million recorded in the PAB segment, \$42 million recorded in corporate unallocated expenses and a credit of \$8 million recorded in the Europe segment, primarily reflecting a gain on our previously held equity interest in WBD. All of these net charges were recorded in selling, general and administrative expenses. These charges also include closing costs and advisory fees related to our acquisition of WBD. Substantially all cash payments related to the above charges are expected to be paid by the end of 2011.

In the 12 weeks ended March 20, 2010, we incurred merger and integration charges of \$312 million related to our acquisitions of PBG and PAS, including \$193 million recorded in the PAB segment, \$1 million recorded in the Europe segment, \$88 million recorded in corporate unallocated expenses and \$30 million recorded in interest expense. All of these charges, other than the interest expense portion, were recorded in selling, general and administrative expenses. These charges also include closing costs, one-time financing costs and advisory fees related to our acquisitions of PBG and PAS. In addition, we recorded \$9 million of charges, representing our share of the respective merger costs of PBG and PAS, in bottling equity income. Substantially all cash payments related to the above charges are expected to be paid by the end of 2011. In total, these charges had an after-tax impact of \$261 million or \$0.16 per share.

## [Table of Contents](#)

A summary of our merger and integration activity in 2011 is as follows:

	Severance and Other Employee Costs	Other Costs	Total
Liability as of December 25, 2010	\$ 179	\$ 25	\$ 204
2011 merger and integration charges	8	47	55
Cash payments	(43)	(74)	(117)
Non-cash charges	(20)	17	(3)
Liability as of March 19, 2011	<u>\$ 124</u>	<u>\$ 15</u>	<u>\$ 139</u>

## **Financial Instruments**

We are exposed to market risks arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and energy,
- foreign exchange risks, and
- interest rates.

In the normal course of business, we manage these risks through a variety of strategies, including the use of derivatives. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. Ineffectiveness of our hedges is not material. We do not use derivative instruments for trading or speculative purposes. We perform assessments of our counterparty credit risk regularly, including a review of credit ratings, credit default swap rates and potential nonperformance of the counterparty. Based on our most recent assessment of our counterparty credit risk, we consider this risk to be low. In addition, we enter into derivative contracts with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk and generally settle with these financial institutions on a net basis.

### **Commodity Prices**

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price purchase orders, pricing agreements, geographic diversity and derivatives. We use derivatives, with terms of no more than three years, to economically hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for natural gas, diesel fuel and aluminum. For those derivatives that qualify for hedge accounting, any ineffectiveness is recorded immediately in corporate unallocated expenses. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item. During the next 12 months, we expect to reclassify net gains of \$34 million related to these hedges from accumulated other comprehensive loss into net income. Derivatives used to hedge commodity price risk that do not qualify for hedge accounting are marked to market each period and reflected in our income statement.

Our open commodity derivative contracts that qualify for hedge accounting had a face value of \$573 million as of March 19, 2011 and \$582 million as of March 20, 2010. These contracts resulted in net unrealized gains of \$73 million as of March 19, 2011 and \$72 million as of March 20, 2010.

Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of \$300 million as of March 19, 2011 and \$221 million as of March 20, 2010. These contracts resulted in net gains of \$58 million as of March 19, 2011 and \$20 million as of March 20, 2010.

### ***Foreign Exchange***

Financial statements of foreign subsidiaries are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. Adjustments resulting from translating net assets are reported as a separate component of accumulated other comprehensive loss within common shareholders' equity as currency translation adjustment.

We may enter into derivatives, primarily forward contracts with terms of no more than two years, to manage our exposure to foreign currency transaction risk. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred.

Our foreign currency derivatives had a total face value of \$2.3 billion as of March 19, 2011 and \$1.4 billion as of March 20, 2010. The contracts that qualify for hedge accounting resulted in net unrealized losses of \$34 million as of March 19, 2011 and \$29 million as of March 20, 2010. During the next 12 months, we expect to reclassify net losses of \$30 million related to these hedges from accumulated other comprehensive loss into net income. The contracts that do not qualify for hedge accounting resulted in net losses of \$5 million as of both March 19, 2011 and March 20, 2010. All losses and gains were offset by changes in the underlying hedged items, resulting in no net material impact on earnings.

### ***Interest Rates***

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use various interest rate derivative instruments including, but not limited to, interest rate swaps, cross currency interest rate swaps, Treasury locks and swap locks to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. Certain of our fixed rate indebtedness has been swapped to floating rates. The notional amount, interest payment and maturity date of the interest rate and cross-currency swaps match the principal, interest payment and maturity date of the related debt. Our Treasury locks and swap locks are entered into to protect against unfavorable interest rate changes relating to forecasted debt transactions.

The notional amounts of the interest rate derivative instruments outstanding as of March 19, 2011 and March 20, 2010 were \$9.23 billion and \$8.35 billion, respectively. For those interest rate derivative instruments that qualify for cash flow hedge accounting, any ineffectiveness is recorded immediately. We classify both the earnings and cash flow impact from these interest rate derivative instruments consistent with the underlying hedged item. During the next 12 months, we expect to reclassify net losses of \$13 million related to these hedges from accumulated other comprehensive loss into net income.

As of March 19, 2011, approximately 44% of total debt, after the impact of the related interest rate derivative instruments, was exposed to variable rates, compared to 43% as of December 25, 2010.

**Fair Value Measurements**

The fair values of our financial assets and liabilities as of March 19, 2011 and March 20, 2010 are categorized as follows:

	2011		2010	
	Assets <sup>(a)</sup>	Liabilities <sup>(a)</sup>	Assets <sup>(a)</sup>	Liabilities <sup>(a)</sup>
Available-for-sale securities <sup>(b)</sup>	\$ 70	–	\$ 69	–
Short-term investments – index funds <sup>(c)</sup>	\$ 177	–	\$ 123	–
Deferred compensation <sup>(d)</sup>	–	\$ 553	–	\$ 572
<b>Derivatives designated as hedging instruments:</b>				
Forward exchange contracts <sup>(e)</sup>	\$ 4	\$ 38	\$ 10	\$ 39
Interest rate derivatives <sup>(f)</sup>	296	16	207	12
Commodity contracts – other <sup>(g)</sup>	89	1	112	5
Commodity contracts – futures <sup>(h)</sup>	1	16	–	35
	<u>\$ 390</u>	<u>\$ 71</u>	<u>\$ 329</u>	<u>\$ 91</u>
<b>Derivatives not designated as hedging instruments:</b>				
Forward exchange contracts <sup>(e)</sup>	\$ 6	\$ 11	\$ 2	\$ 7
Interest rate derivatives <sup>(f)</sup>	14	52	–	42
Commodity contracts – other <sup>(g)</sup>	59	1	12	30
Commodity contracts – futures <sup>(h)</sup>	–	–	–	2
Prepaid forward contracts <sup>(i)</sup>	43	–	64	–
	<u>\$ 122</u>	<u>\$ 64</u>	<u>\$ 78</u>	<u>\$ 81</u>
Total derivatives at fair value	<u>\$ 512</u>	<u>\$ 135</u>	<u>\$ 407</u>	<u>\$ 172</u>
<b>Total</b>	<u>\$ 759</u>	<u>\$ 688</u>	<u>\$ 599</u>	<u>\$ 744</u>

- (a) Financial assets are classified on our balance sheet within other assets, with the exception of short-term investments. Financial liabilities are classified on our balance sheet within other current liabilities and other liabilities. Unless specifically indicated, all financial assets and liabilities are categorized as Level 2 assets or liabilities.
- (b) Based on the price of common stock. Categorized as a Level 1 asset.
- (c) Based on price changes in index funds used to manage a portion of market risk arising from our deferred compensation liability. Categorized as a Level 1 asset.
- (d) Based on the fair value of investments corresponding to employees' investment elections. As of March 19, 2011 and March 20, 2010, \$63 million and \$124 million, respectively, are categorized as Level 1 liabilities. The remaining balances are categorized as Level 2 liabilities.
- (e) Based on observable market transactions of spot and forward rates.
- (f) Based on LIBOR and recently reported transactions in the marketplace.
- (g) Based on recently reported transactions in the marketplace, primarily swap arrangements.
- (h) Based on average prices on futures exchanges. Categorized as a Level 1 asset or liability.
- (i) Based primarily on the price of our common stock.

The fair value of our debt obligations as of March 19, 2011 was \$28.9 billion, based upon prices of similar instruments in the marketplace.

[Table of Contents](#)

The effective portion of the pre-tax (gains)/losses on our derivative instruments are categorized in the tables below.

	<b>12 Weeks Ended</b>					
	<b>Fair Value/Non-designated Hedges</b>		<b>Cash Flow Hedges</b>			
	(Gains)/Losses Recognized in Income Statement <sup>(a)</sup>		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss		Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement <sup>(b)</sup>	
	<u>3/19/11</u>	<u>3/20/10</u>	<u>3/19/11</u>	<u>3/20/10</u>	<u>3/19/11</u>	<u>3/20/10</u>
Forward exchange contracts	\$ (1)	\$ 6	\$ 25	\$ 13	\$ 5	\$ 11
Interest rate derivatives	(22)	10	(6)	48	3	–
Prepaid forward contracts	2	(18)	–	–	–	–
Commodity contracts	(39)	(46)	(40)	(12)	(6)	16
<b>Total</b>	<b><u>\$ (60)</u></b>	<b><u>\$ (48)</u></b>	<b><u>\$ (21)</u></b>	<b><u>\$ 49</u></b>	<b><u>\$ 2</u></b>	<b><u>\$ 27</u></b>

- (a) Interest rate gains/losses are included in interest expense in our income statement. All other gains/losses are included in corporate unallocated expenses.
- (b) Interest rate losses are included in interest expense in our income statement. All other gains/losses are included in cost of sales in our income statement.

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

**FINANCIAL REVIEW**

---

*Our discussion and analysis is an integral part of understanding our financial results. Also refer to Basis of Presentation and Our Divisions in the Notes to the Condensed Consolidated Financial Statements. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted and are based on unrounded amounts. Percentage changes are based on unrounded amounts.*

**Our Critical Accounting Policies**

---

***Sales Incentives and Advertising and Marketing Costs***

We offer sales incentives and discounts through various programs to customers and consumers. These incentives are accounted for as a reduction of revenue. Certain sales incentives are recognized at the time of sale while other incentives, such as bottler funding and customer volume rebates, are recognized during the year incurred, generally in proportion to revenue, based on annual targets. Anticipated payments are estimated based on historical experience with similar programs and require management judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. In addition, certain advertising and marketing costs are also recognized during the year incurred, generally in proportion to revenue.

***Income Taxes***

In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate which is based on our expected annual income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Subsequent recognition, derecognition and measurement of a tax position taken in a previous period are separately recognized in the quarter in which they occur.

**Our Business Risks**

---

*This Quarterly Report on Form 10-Q contains statements reflecting our views about our future performance that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Reform Act”). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as “believe,” “expect,” “intend,” “estimate,” “project,” “anticipate,” “will” and variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statements. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.*



---

[Table of Contents](#)

Our operations outside of the United States generated approximately 40% of our net revenue in the 12 weeks ended March 19, 2011. As a result, we are exposed to foreign currency risks, including unforeseen economic changes and political unrest. During the 12 weeks ended March 19, 2011, favorable foreign currency increased net revenue growth by 1 percentage point, primarily due to appreciation of the Mexican peso, Canadian dollar and Brazilian real, partially offset by depreciation of the euro. Currency declines against the U.S. dollar which are not offset could adversely impact our future results.

We expect to be able to reduce the impact of volatility in our raw material and energy costs through our hedging strategies and ongoing sourcing initiatives.

See *Financial Instruments* in the Notes to the Condensed Consolidated Financial Statements for further discussion of our derivative instruments, including their fair values as of March 19, 2011 and March 20, 2010. Cautionary statements included in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 and in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks included in Exhibit 99.1 to our Current Report on Form 8-K dated March 31, 2011, should be considered when evaluating our trends and future results.

**Results of Operations – Consolidated Review****Items Affecting Comparability**

Our reported financial results are impacted by the following items in each of the following periods:

	12 Weeks Ended	
	3/19/11	3/20/10
<b>Operating profit</b>		
Mark-to-market net gains	\$ 31	\$ 46
Merger and integration charges	\$ (55)	\$ (282)
Inventory fair value adjustments	\$ (34)	\$ (281)
Venezuela currency devaluation	\$ –	\$ (120)
Asset write-off	\$ –	\$ (145)
Foundation contribution	\$ –	\$ (100)
<b>Bottling equity income</b>		
Gain on previously held equity interests	\$ –	\$ 735
Merger and integration charges	\$ –	\$ (9)
<b>Interest expense</b>		
Merger and integration charges	\$ –	\$ (30)
<b>Net income attributable to PepsiCo</b>		
Mark-to-market net gains	\$ 19	\$ 29
Gain on previously held equity interests	\$ –	\$ 958
Merger and integration charges	\$ (49)	\$ (261)
Inventory fair value adjustments	\$ (21)	\$ (240)
Venezuela currency devaluation	\$ –	\$ (120)
Asset write-off	\$ –	\$ (92)
Foundation contribution	\$ –	\$ (64)
<b>Net income attributable to PepsiCo per common share – diluted</b>		
Mark-to-market net gains	\$ 0.01	\$ 0.02
Gain on previously held equity interests	\$ –	\$ 0.60
Merger and integration charges	\$ (0.03)	\$ (0.16)
Inventory fair value adjustments	\$ (0.01)	\$ (0.15)
Venezuela currency devaluation	\$ –	\$ (0.07)
Asset write-off	\$ –	\$ (0.06)
Foundation contribution	\$ –	\$ (0.04)

**Mark-to-Market Net Impact**

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include energy, fruit, aluminum and other raw materials. Certain of these commodity derivatives do not qualify for hedge accounting treatment and are marked to market with the resulting gains and losses recognized in corporate unallocated expenses. These gains and losses are subsequently reflected in division results when the divisions take delivery of the underlying commodity. Therefore, the divisions realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility which remains in corporate unallocated expenses.

## [Table of Contents](#)

In the 12 weeks ended March 19, 2011, we recognized \$31 million (\$19 million after-tax or \$0.01 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

In the 12 weeks ended March 20, 2010, we recognized \$46 million (\$29 million after-tax or \$0.02 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

### **Gain on Previously Held Equity Interests**

In the 12 weeks ended March 20, 2010, in connection with our acquisitions of PBG and PAS, we recorded a gain on our previously held equity interests of \$958 million (\$0.60 per share), comprising \$735 million which is non-taxable and recorded in bottling equity income and \$223 million related to the reversal of deferred tax liabilities associated with these previously held equity interests.

### **Merger and Integration Charges**

In the 12 weeks ended March 19, 2011, we incurred merger and integration charges of \$55 million (\$49 million after-tax or \$0.03 per share) related to our acquisitions of PBG, PAS and WBD, including \$21 million recorded in the PAB segment, \$42 million recorded in corporate unallocated expenses and a credit of \$8 million recorded in the Europe segment, primarily reflecting a gain on our previously held equity interest in WBD. These charges also include closing costs and advisory fees related to our acquisition of WBD.

In the 12 weeks ended March 20, 2010, we incurred merger and integration charges of \$312 million related to our acquisitions of PBG and PAS, including \$193 million recorded in the PAB segment, \$1 million recorded in the Europe segment, \$88 million recorded in corporate unallocated expenses and \$30 million recorded in interest expense. These charges also include closing costs, one-time financing costs and advisory fees related to our acquisitions of PBG and PAS. In addition, we recorded \$9 million of charges, representing our share of the respective merger costs of PBG and PAS, in bottling equity income. In total, these charges had an after-tax impact of \$261 million or \$0.16 per share.

### **Inventory Fair Value Adjustments**

In the 12 weeks ended March 19, 2011, we recorded \$34 million (\$21 million after-tax or \$0.01 per share) of incremental costs in cost of sales related to fair value adjustments to the acquired inventory included in WBD's balance sheet at the acquisition date and other related hedging contracts included in PBG's and PAS's balance sheets at the acquisition date.

In the 12 weeks ended March 20, 2010, we recorded \$281 million (\$240 million after-tax or \$0.15 per share) of incremental costs in cost of sales related to fair value adjustments to the acquired inventory and other related hedging contracts included in PBG's and PAS's balance sheets at the acquisition date.

### **Venezuela Currency Devaluation**

As of the beginning of our 2010 fiscal year, we recorded a one-time \$120 million net charge related to our change to hyperinflationary accounting for our Venezuelan businesses and the related devaluation of the bolivar. \$129 million of this net charge was recorded in corporate unallocated expenses, with the balance (income of \$9 million) recorded in our PAB segment. In total, this net charge had an after-tax impact of \$120 million or \$0.07 per share.

### **Asset Write-Off**

In the 12 weeks ended March 20, 2010, we recorded a \$145 million charge (\$92 million after-tax or \$0.06 per share) related to a change in scope of one release in our ongoing migration to SAP software. This change was driven, in part, by a review of our North America systems strategy following our acquisitions of PBG and PAS. This change does not impact our overall commitment to continue our implementation of SAP across our global operations over the next few years.

### **Foundation Contribution**

In the 12 weeks ended March 20, 2010, we made a \$100 million (\$64 million after-tax or \$0.04 per share) contribution to The PepsiCo Foundation, Inc., in order to fund charitable and social programs over the next several years. This contribution was recorded in corporate unallocated expenses.

### **Non-GAAP Measures**

Certain measures contained in this Form 10-Q are financial measures that are adjusted for items affecting comparability (see “Items Affecting Comparability” for a detailed list and description of each of these items), as well as, in certain instances, adjusted for foreign currency. These measures are not in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Items adjusted for currency assume foreign currency exchange rates used for translation based on the rates in effect for the comparable prior-year period. We believe investors should consider these non-GAAP measures in evaluating our results as they are more indicative of our ongoing performance and with how management evaluates our operational results and trends. These measures are not, and should not be viewed as, a substitute for U.S. GAAP reporting measures. See also “Management Operating Cash Flow.”

### **Volume**

Since our divisions each use different measures of physical unit volume, a common servings metric is necessary to reflect our consolidated physical unit volume. For the 12 weeks ended March 19, 2011, total servings increased 9%, as worldwide snacks increased 3% and worldwide beverages increased 12%.

We discuss volume for our beverage businesses on a bottler case sales (BCS) basis in which all beverage volume is converted to an 8-ounce-case metric. Most of our beverage volume is sold by our company-owned and franchise-owned bottlers, and that portion is based on our bottlers’ sales to retailers and independent distributors. The remainder of our volume is based on our direct shipments to retailers and independent distributors. We report our international beverage volume on a monthly basis. Our first quarter includes beverage volume outside of North America for January and February. Concentrate shipments and equivalents (CSE) represent our physical beverage volume shipments to independent bottlers, retailers and independent distributors, and is the measure upon which our revenue is based.

**Consolidated Results****Total Net Revenue and Operating Profit**

	12 Weeks Ended		
	<u>3/19/11</u>	<u>3/20/10</u>	<u>Change</u>
Total net revenue	<b>\$11,937</b>	\$ 9,368	27%
Operating profit			
FLNA	\$ 774	\$ 728	6%
QFNA	214	195	9%
LAF	171	145	17%
PAB	558	73	669%
Europe	63	118	(47)%
AMEA	146	155	(6)%
Corporate Unallocated			
Mark-to-market net gains	31	46	(33)%
Merger and integration charges	(42)	(88)	(52)%
Venezuela currency devaluation	–	(129)	n/m
Asset write-off	–	(145)	n/m
Foundation contribution	–	(100)	n/m
Other	<b>(189)</b>	<b>(158)</b>	19%
Total operating profit	<b><u>\$ 1,726</u></b>	<b><u>\$ 840</u></b>	105%
Total operating profit margin	<b>14.5%</b>	9.0%	5.5

*n/m = not meaningful*

See “Results of Operations – Division Review” for a tabular presentation and discussion of key drivers of net revenue.

On a reported basis, total operating profit increased 105% and operating margin increased 5.5 percentage points. Operating profit performance was primarily driven by items affecting comparability (see “Items Affecting Comparability”), which contributed 102 percentage points to the total operating profit growth and 8.9 percentage points to the total operating margin increase. Operating profit performance also reflects the incremental operating results from our acquisitions of PBG and PAS.

**Other Consolidated Results**

	12 Weeks Ended		
	<u>3/19/11</u>	<u>3/20/10</u>	<u>Change</u>
Bottling equity income	\$ –	\$ 709	\$ (709)
Interest expense, net	\$ (163)	\$ (148)	\$ (15)
Tax rate	26.8%	(2.3)%	
Net income attributable to PepsiCo	\$ 1,143	\$ 1,430	(20)%
Net income attributable to PepsiCo per common share – diluted	\$ 0.71	\$ 0.89	(20)%
Mark-to-market net gains	(0.01)	(0.02)	
Gain on previously held equity interests	–	(0.60)	
Merger and integration charges	0.03	0.16	
Inventory fair value adjustments	0.01	0.15	
Venezuela currency devaluation	–	0.07	
Asset write-off	–	0.06	
Foundation contribution	–	0.04	
Net income attributable to PepsiCo per common share – diluted, excluding above items*	<u>\$ 0.74</u>	<u>\$ 0.76**</u>	(2)%
Impact of foreign currency translation			(1)
Growth in net income attributable to PepsiCo per common share – diluted, excluding above items, on a constant currency basis*			<u>(3)%</u>

\* See “Non-GAAP Measures”

\*\* Does not sum due to rounding

Bottling equity income decreased \$709 million, primarily reflecting the gain in the prior year on our previously held equity interests in connection with our acquisitions of PBG and PAS.

Net interest expense increased \$15 million, primarily reflecting higher average debt balances, partially offset by lower average rates on our debt balances as well as bridge and term financing costs in the prior year in connection with our acquisitions of PBG and PAS.

The reported tax rate was 26.8%, compared to a benefit of 2.3% in the prior year. The year-over-year change was driven primarily by the prior year non-taxable gain and reversal of deferred taxes attributable to our previously held equity interests in connection with our acquisitions of PBG and PAS.

Net income attributable to PepsiCo and net income attributable to PepsiCo per common share decreased 20%. Items affecting comparability (see “Items Affecting Comparability”) decreased both net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 18 percentage points.

## Results of Operations – Division Review

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. For additional information, see *Our Divisions* and *Merger and Integration Charges* in the Notes to the Condensed Consolidated Financial Statements and “Items Affecting Comparability.”

Furthermore, in the discussions of net revenue and operating profit below, “effective net pricing” reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries, and “net pricing” reflects the year-over-year combined impact of list price changes, weight changes per package, discounts and allowances. Additionally, “acquisitions”, except as otherwise noted, reflect all mergers and acquisitions activity, including the impact of acquisitions, divestitures and changes in ownership or control in consolidated subsidiaries and nonconsolidated equity investees.

### Net Revenue

<u>12 Weeks Ended</u>	<u>FLNA</u>	<u>QFNA</u>	<u>LAF</u>	<u>PAB</u>	<u>Europe</u>	<u>AMEA</u>	<u>Total</u>
<b>March 19, 2011</b>	<b>\$2,904</b>	<b>\$ 640</b>	<b>\$1,108</b>	<b>\$4,531</b>	<b>\$ 1,626</b>	<b>\$ 1,128</b>	<b>\$11,937</b>
March 20, 2010	\$2,864	\$ 683	\$ 983	\$2,765	\$ 1,044	\$ 1,029	\$ 9,368
<i>% Impact of:</i>							
Volume <sup>(a)</sup>	1%	(8)%	2%	*	*	4%	*
Effective net pricing <sup>(b)</sup>	–	1	5	*	*	3	*
Foreign exchange	–	1	6	0.5	(2)	2	1
Acquisitions	–	–	–	*	*	0.5	*
<i>% Change<sup>(c)</sup></i>	<u>1.5%</u>	<u>(6)%</u>	<u>13%</u>	<u>64%</u>	<u>56%</u>	<u>10%</u>	<u>27%</u>

(a) Excludes the impact of acquisitions. In certain instances, volume growth varies from the amounts disclosed in the following divisional discussions due to nonconsolidated joint venture volume, and, for our beverage businesses, temporary timing differences between BCS and CSE. Our net revenue excludes nonconsolidated joint venture volume, and, for our beverage businesses, is based on CSE.

(b) Includes the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

(c) Amounts may not sum due to rounding.

\* It is impractical to separately determine and quantify the impact of our acquisitions of PBG and PAS from changes in our pre-existing beverage business since we now manage these businesses as an integrated system.

[Table of Contents](#)**Frito-Lay North America**

	12 Weeks Ended		%
	<u>3/19/11</u>	<u>3/20/10</u>	<u>Change</u>
Net revenue	<b>\$ 2,904</b>	<b>\$ 2,864</b>	1.5
Impact of foreign currency translation			—
Net revenue growth, on a constant currency basis*			<u>1**</u>
Operating profit	<b>\$ 774</b>	<b>\$ 728</b>	6
Impact of foreign currency translation			—
Operating profit growth, on a constant currency basis*			<u>6</u>

\* See “Non-GAAP Measures”

\*\* *Does not sum due to rounding*

Net revenue grew 1.5% and pound volume increased 2%. The volume growth primarily reflects mid-single-digit growth in trademark Lay’s and double-digit growth in both our Sabra joint venture and in trademark Ruffles. These gains were partially offset by a mid-single-digit decline in dips.

Operating profit grew 6%, reflecting lower commodity costs, primarily cooking oil and fuel.



**Quaker Foods North America**

	12 Weeks Ended		% Change
	3/19/11	3/20/10	
Net revenue	<u>\$ 640</u>	<u>\$ 683</u>	(6)
Impact of foreign currency translation			(1)
Net revenue growth, on a constant currency basis*			<u>(7)</u>
Operating profit	<u>\$ 214</u>	<u>\$ 195</u>	9
Impact of foreign currency translation			(1)
Operating profit growth, on a constant currency basis*			<u>9**</u>

\* See "Non-GAAP Measures"

\*\* *Does not sum due to rounding*

Net revenue declined 6% and volume declined 8%. The volume decline primarily reflects double-digit declines in ready-to-eat cereals, Aunt Jemima syrup and mix, and trademark Roni, as well as mid-single-digit declines in Chewy granola bars. The impact of positive net pricing, driven primarily by price increases taken in the fourth quarter of 2010, was largely offset by negative mix. Favorable foreign currency positively contributed nearly 1 percentage point to the net revenue performance.

Operating profit grew 9%, largely reflecting a change in accounting methodology for inventory which contributed 7 percentage points to the operating profit growth (see *Basis of Presentation* in the Notes to the Condensed Consolidated Financial Statements). Additionally, lower selling and distribution costs and lower advertising and marketing expenses contributed to the operating profit growth. Favorable foreign currency contributed nearly 1 percentage point to the operating profit growth.

**Latin America Foods**

	12 Weeks Ended		%
	3/19/11	3/20/10	Change
Net revenue	<u>\$ 1,108</u>	<u>\$ 983</u>	13
Impact of foreign currency translation			(6)
Net revenue growth, on a constant currency basis*			<u>7</u>
Operating profit	<u>\$ 171</u>	<u>\$ 145</u>	17
Impact of foreign currency translation			(5)
Operating profit growth, on a constant currency basis*			<u>13**</u>

\* See "Non-GAAP Measures"

\*\* Does not sum due to rounding

Volume grew 2%, primarily reflecting low-single-digit increases at both Gamesa and Sabritas in Mexico, as well as double-digit increases in Argentina and Chile. These gains were partially offset by a low-single-digit decline in Brazil.

Net revenue increased 13%, primarily reflecting favorable effective net pricing and the volume growth. Favorable foreign currency increased net revenue growth by 6 percentage points.

Operating profit increased 17%, primarily reflecting the net revenue growth, partially offset by higher sales and distribution costs. Favorable foreign currency increased operating profit growth by 5 percentage points.

**PepsiCo Americas Beverages**

	12 Weeks Ended		%
	3/19/11	3/20/10	Change
Net revenue	<u>\$ 4,531</u>	<u>\$ 2,765</u>	64
Impact of foreign currency translation			(0.5)
Net revenue growth, on a constant currency basis*			<u>63**</u>
Operating profit	\$ 558	\$ 73	669
Merger and integration charges	21	193	
Inventory fair value adjustments	9	281	
Venezuela currency devaluation	—	(9)	
Operating profit excluding above items*	<u>\$ 588</u>	<u>\$ 538</u>	9
Impact of foreign currency translation			(1)
Operating profit growth excluding above items, on a constant currency basis*			<u>9**</u>

\* See “Non-GAAP Measures”

\*\* Does not sum due to rounding

Volume increased 12%, primarily reflecting volume from incremental brands related to our acquisition of PBG’s operations in Mexico in the prior year, which contributed 5.5 percentage points to volume growth, as well as incremental volume related to our DPSG manufacturing and distribution agreement, which contributed nearly 5 percentage points to volume growth. North America volumes, excluding the impact of the incremental DPSG volume, increased 2%, driven by a 7% increase in non-carbonated beverage volume, partially offset by a 1% decline in CSD volume. The non-carbonated beverage volume growth primarily reflected a double-digit increase in Gatorade sports drinks.

Net revenue increased 64%, primarily reflecting the incremental finished goods revenue related to our acquisitions of PBG and PAS. Favorable foreign currency contributed 0.5 percentage points to the net revenue growth.

Reported operating profit increased 669%, primarily reflecting the items affecting comparability in the above table (see “Items Affecting Comparability”), as well as the incremental operating results from our acquisitions of PBG and PAS. Excluding the items affecting comparability, operating profit increased 9%. Favorable foreign currency increased operating profit growth by 1 percentage point.

## Europe

	12 Weeks Ended		% Change
	3/19/11	3/20/10	
Net revenue	<u>\$ 1,626</u>	<u>\$ 1,044</u>	56
Impact of foreign currency translation			2
Net revenue growth, on a constant currency basis*			<u>58</u>
Operating profit	\$ 63	\$ 118	(47)
Merger and integration charges	(8)	1	
Inventory fair value adjustments	25	-	
Operating profit excluding above items*	<u>\$ 80</u>	<u>\$ 119</u>	(33)
Impact of foreign currency translation			2
Operating profit growth excluding above items, on a constant currency basis*			<u>(31)</u>

\* See “Non-GAAP Measures”

Snacks volume grew 24%, primarily reflecting our acquisition of WBD, which contributed 18 percentage points to the volume growth. Double-digit increases in Turkey and Russia and a high-single-digit increase in South Africa also contributed to the snacks volume growth and were partially offset by a double-digit decline in Quaker in the United Kingdom and a high-single-digit decline in Spain. Additionally, Walkers in the United Kingdom grew at a low-single-digit rate.

Beverage volume increased 28%, primarily reflecting our acquisition of WBD, which contributed 15 percentage points to the beverage volume growth, and incremental brands related to our acquisitions of PBG and PAS, which contributed 5 percentage points to the beverage volume growth. Double-digit increases in Russia and Turkey also contributed to the beverage volume growth and were partially offset by a double-digit decline in Romania. Additionally, Germany and the United Kingdom each grew at a high-single-digit rate.

Net revenue grew 56%, primarily reflecting the incremental finished goods revenue related to our acquisitions of PBG and PAS, as well as the WBD acquisition which contributed 22 percentage points to the net revenue growth. Unfavorable foreign currency reduced net revenue growth by 2 percentage points.

Reported operating profit declined 47%, reflecting higher commodity costs and increased investments in strategic markets, as well as higher fixed costs associated with the incremental operating results from our acquisitions of PBG and PAS. These declines were partly offset by the WBD acquisition, which positively contributed 2 percentage points to the reported operating profit performance and reflected net charges of \$11 million included in items affecting comparability in the above table (see “Items Affecting Comparability”). Excluding items affecting comparability, total division operating profit declined 33%. Unfavorable foreign currency reduced operating profit performance by 2 percentage points.

**Asia, Middle East & Africa**

	12 Weeks Ended		%
	<u>3/19/11</u>	<u>3/20/10</u>	<u>Change</u>
Net revenue	<u>\$ 1,128</u>	<u>\$ 1,029</u>	10
Impact of foreign currency translation			(2)
Net revenue growth, on a constant currency basis*			<u>7**</u>
Operating profit	<u>\$ 146</u>	<u>\$ 155</u>	(6)
Impact of foreign currency translation			(3)
Operating profit growth, on a constant currency basis*			<u>(9)</u>

\* See "Non-GAAP Measures"

\*\* *Does not sum due to rounding*

Snacks volume grew 12%, reflecting broad-based increases driven by double-digit growth in India, Thailand, the Middle East and China, partially offset by a mid-single-digit decline in Australia. Acquisitions contributed 1 percentage point to the snacks volume growth.

Beverage volume grew 5.5%, reflecting broad-based increases driven by double-digit growth in India. Additionally, the Middle East and China each grew at a mid-single-digit rate. Acquisitions had a nominal impact on the beverage volume growth rate.

Net revenue grew 10%, reflecting the volume growth and favorable effective net pricing. Foreign currency contributed 2 percentage points to the net revenue growth. Acquisitions contributed 0.5 percentage points to the net revenue growth.

Operating profit declined 6%, driven by higher commodity costs, partially offset by the recovery of a previously written-off receivable. Favorable foreign currency increased operating profit by 3 percentage points and acquisitions reduced operating profit by 1 percentage point.

## **Our Liquidity and Capital Resources**

---

We believe that our cash generating capability and financial condition, together with our revolving credit facilities and other available methods of debt financing (including long-term debt financing which, depending upon market conditions, we may use to replace a portion of our commercial paper borrowings), will be adequate to meet our operating, investing and financing needs. However, there can be no assurance that volatility in the global capital and credit markets will not impair our ability to access these markets on terms commercially acceptable to us or at all.

In addition, currency restrictions enacted by the government in Venezuela have impacted our ability to pay dividends outside of the country from our snack and beverage operations in Venezuela. As of March 19, 2011, our operations in Venezuela comprised 7% of our cash and cash equivalents balance.

### ***Operating Activities***

During the 12 weeks in 2011, net cash provided by operating activities was \$380 million, compared to net cash provided of \$241 million in the prior year period. The operating cash flow growth primarily reflects the overlap of a \$0.6 billion discretionary pension contribution in the prior year, offset by unfavorable working capital comparisons to the prior year. Seasonality negatively contributed to operating working capital in both periods.

### ***Investing Activities***

During the 12 weeks, net cash used for investing activities was \$3.0 billion, primarily reflecting \$2.4 billion of cash paid, net of cash and cash equivalents acquired, in connection with our acquisition of WBD. Additionally, we used \$0.4 billion for net capital spending in the current year.

### ***Financing Activities***

During the 12 weeks, net cash provided by financing activities was \$226 million, primarily reflecting net proceeds from short-term borrowings of \$1.1 billion and stock option proceeds of \$0.2 billion, mostly offset by the return of operating cash flow to our shareholders through share repurchases and dividend payments of \$1.1 billion. As of March 19, 2011, we had \$3.6 billion of commercial paper outstanding. We anticipate share repurchases of approximately \$2.5 billion in 2011.

### **Management Operating Cash Flow**

We focus on management operating cash flow as a key element in achieving maximum shareholder value, and it is the primary measure we use to monitor cash flow performance. However, it is not a measure provided by accounting principles generally accepted in the U.S. Therefore, this measure is not, and should not be viewed as, a substitute for U.S. GAAP cash flow measures. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. Additionally, we consider certain items (included in the table below), in evaluating management operating cash flow. We believe investors should consider these items in evaluating our management operating cash flow results.

The table below reconciles net cash provided by operating activities, as reflected in our cash flow statement, to our management operating cash flow excluding the impact of the items below.

	12 Weeks Ended	
	3/19/11	3/20/10
Net cash provided by operating activities	<u>\$ 380</u>	<u>\$ 241</u>
Capital spending	(433)	(274)
Sales of property, plant and equipment	<u>12</u>	<u>16</u>
Management operating cash flow	(41)	(17)
Discretionary pension contributions	–	600
Payments related to 2009 restructuring charges	1	26
Merger and integration payments (after-tax)	97	85
Foundation contribution	–	100
Capital investments related to the PBG/PAS integration	<u>21</u>	<u>–</u>
Management operating cash flow excluding above items	<u>\$ 78</u>	<u>\$ 794</u>

We expect to continue to return management operating cash flow to our shareholders through dividends and share repurchases while maintaining short-term credit ratings that ensure appropriate financial flexibility and ready access to global and capital credit markets at favorable interest rates. However, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks in our Current Report on Form 8-K dated March 31, 2011 for certain factors that may impact our operating cash flows.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
PepsiCo, Inc.:

We have reviewed the accompanying Condensed Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of March 19, 2011, and the related Condensed Consolidated Statements of Income, Cash Flows, Equity and Comprehensive Income for the twelve weeks ended March 19, 2011 and March 20, 2010. These interim condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 25, 2010, and the related Consolidated Statements of Income, Cash Flows and Equity for the fiscal year then ended not presented herein; and in our report dated February 18, 2011, except as to Notes 1, 3 and 4, which are as of March 31, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 25, 2010, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

/s/ KPMG LLP

New York, New York  
April 28, 2011



ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” and *Financial Instruments* in the Notes to the Condensed Consolidated Financial Statements. In addition, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 and Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks included in Exhibit 99.1 to our Current Report on Form 8-K dated March 31, 2011.

ITEM 4. Controls and Procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

During our first fiscal quarter of 2011, we continued migrating certain of our financial processing systems to an enterprise-wide systems solution. These systems implementations are part of our ongoing global business transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses over the course of the next few years. In connection with these implementations and resulting business process changes, we continue to enhance the design and documentation of our internal control processes to ensure suitable controls over our financial reporting.

Except as described above, there were no changes in our internal control over financial reporting during our first fiscal quarter of 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### ITEM 1. Legal Proceedings.

The following information supplements and amends the discussion set forth under Part I, Item 3 “Legal Proceedings” in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010.

As previously reported, on December 22, 2009, Wojewodzka Inspekcja Ochrony Srodowiska, the Polish environmental control authority, began an audit of a bottling plant of our subsidiary, Pepsi-Cola General Bottlers Poland SP, z.o.o. (PCGB), in Michrow, Poland and alleged that the plant was not in compliance in 2007 and 2008 with applicable regulations requiring the use of approved laboratories for the analysis of the plant’s waste. The Wojewodzka Inspekcja Ochrony Srodowiska sought monetary sanctions of \$1.2 million. PCGB appealed this decision and the appeal is pending. On January 6, 2011, Wojewodzka Inspekcja Ochrony Srodowiska began an audit alleging non-compliance in 2009 and subsequently sought monetary sanctions of \$700,000. PCGB appealed this decision and the appeal is pending.

In addition, we and our subsidiaries are party to a variety of other legal proceedings arising in the normal course of business. While the results of these proceedings cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on our consolidated financial statements, results of operations or cash flows.

### ITEM 1A. Risk Factors.

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010.

## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

A summary of our common stock repurchases (in millions, except average price per share) during the first quarter under the \$15.0 billion repurchase program authorized by our Board of Directors and publicly announced on March 15, 2010, and expiring on June 30, 2013, is set forth in the following table. All such shares of common stock were repurchased pursuant to open market transactions, other than 64,000 shares of common stock which were repurchased pursuant to a privately negotiated block trade transaction.

**Issuer Purchases of Common Stock**

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that may Yet Be Purchased Under the Plans or Programs
12/25/10				\$ 13,536
12/26/10 – 1/22/11	–	–	–	–
				13,536
1/23/11 – 2/19/11	1.4	\$ 63.82	–	(89)
				13,447
2/20/11 – 3/19/11	5.1	\$ 63.46	–	(324)
Total	6.5	\$ 63.53	–	\$ 13,123

[Table of Contents](#)

PepsiCo also repurchases shares of its convertible preferred stock from an employee stock ownership plan (ESOP) fund established by Quaker in connection with share redemptions by ESOP participants. The following table summarizes our convertible preferred share repurchases during the first quarter.

**Issuer Purchases of Convertible Preferred Stock**

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that may Yet Be Purchased Under the Plans or Programs
12/25/10				
12/26/10 – 1/22/11	2,500	\$ 279.68	N/A	N/A
1/23/11 – 2/19/11	–	–	N/A	N/A
2/20/11 – 3/19/11	3,700	\$ 261.28	N/A	N/A
Total	<u>6,200</u>	\$ 268.70	N/A	N/A

ITEM 4. Removed and Reserved.

ITEM 6. Exhibits

See Index to Exhibits on page 46.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PepsiCo, Inc.

(Registrant)

Date: April 28, 2011

/s/ Peter A. Bridgman

Peter A. Bridgman

Senior Vice President and Controller

Date: April 28, 2011

/s/ Thomas H. Tamoney, Jr.

Thomas H. Tamoney, Jr.

Senior Vice President, Deputy General

Counsel and Assistant Secretary

(Duly Authorized Officer)

INDEX TO EXHIBITS  
ITEM 6

EXHIBITS

- Exhibit 2.1 Agreement and Plan of Merger dated as of August 3, 2009, among PepsiCo, Inc., The Pepsi Bottling Group, Inc. and Pepsi-Cola Metropolitan Bottling Company, Inc. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.1 to PepsiCo's Current Report on Form 8-K dated August 3, 2009.
- Exhibit 2.2 Agreement and Plan of Merger dated as of August 3, 2009, among PepsiCo, Inc., PepsiAmericas, Inc. and Pepsi-Cola Metropolitan Bottling Company, Inc. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.2 to PepsiCo's Current Report on Form 8-K dated August 3, 2009.
- Exhibit 2.3 Purchase Agreement dated as of December 1, 2010 among PepsiCo, Inc., Pepsi-Cola (Bermuda) Limited, Gavril A. Yushvaev, David Iakobachvili, Mikhail V. Dubinin, Sergei A. Plastinin, Alexander S. Orlov, Mikhail I. Vishnaykov, Aladaro Limited, Tony D. Maher, Dmitry Ivanov, Wimm Bill Dann Finance Cyprus Ltd. and Wimm-Bill-Dann Finance Co. Ltd. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.1 to PepsiCo's Current Report on Form 8-K dated December 2, 2010.
- Exhibit 3.1 Amended and Restated Articles of Incorporation of PepsiCo, Inc., which are incorporated herein by reference to Exhibit 4.1 to PepsiCo's Registration Statement on Form S-8 (Registration No. 333-66632).
- Exhibit 3.2 By-Laws of PepsiCo, Inc., as amended on September 24, 2010, which are incorporated herein by reference to Exhibit 3.2 to PepsiCo's Current Report on Form 8-K dated September 28, 2010.
- Exhibit 10.1 PepsiCo Director Deferral Program, effective as of January 1, 2005.
- Exhibit 12 Computation of Ratio of Earnings to Fixed Charges.
- Exhibit 15 Letter re: Unaudited Interim Financial Information.
- Exhibit 18 Letter re: Change in Accounting Principles.
- Exhibit 31 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

[Table of Contents](#)

Exhibit 101      The following materials from PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 19, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Statement of Cash Flows, (iii) the Condensed Consolidated Balance Sheet, (iv) the Condensed Consolidated Statement of Equity, (v) the Condensed Consolidated Statement of Comprehensive Income, and (vi) Notes to the Condensed Consolidated Financial Statements.

**PEPSICO**  
**DIRECTOR**  
**DEFERRAL PROGRAM**

**Plan Document for the 409A Program**  
**Amended and Restated Effective as of January 1, 2005**  
**(with Revisions through March 10, 2011)**



## TABLE OF CONTENTS

	<u>Page</u>
<b>ARTICLE I – INTRODUCTION</b>	<b>1</b>
<b>ARTICLE II – DEFINITIONS</b>	<b>2</b>
2.01 ACCOUNT:	2
2.02 ACT:	2
2.03 BENEFICIARY:	2
2.04 CODE:	2
2.05 COMPANY:	2
2.06 COMPENSATION YEAR:	2
2.07 DEFERRAL SUBACCOUNT:	3
2.08 DIRECTOR:	3
2.09 DIRECTOR COMPENSATION:	3
2.10 DISABILITY:	3
2.11 DISTRIBUTION VALUATION DATE:	4
2.12 ELECTION FORM:	4
2.13 ELIGIBLE DIRECTOR:	4
2.14 ERISA:	4
2.15 FAIR MARKET VALUE:	4
2.16 409A PROGRAM:	4
2.17 KEY EMPLOYEE:	5
2.18 MANDATORY DEFERRAL:	5
2.19 PARTICIPANT:	6
2.20 PEPSICO ORGANIZATION:	6
2.21 PLAN:	6
2.22 PLAN ADMINISTRATOR:	6
2.23 PLAN YEAR:	6
2.24 PRE-409A PROGRAM:	6
2.25 RECORDKEEPER:	7
2.26 SECOND LOOK ELECTION:	7
2.27 SECTION 409A:	7
2.28 SEPARATION FROM SERVICE:	7
2.29 SPECIFIC PAYMENT DATE:	7
2.30 UNFORESEEABLE EMERGENCY:	8
2.31 VALUATION DATE:	8
<b>ARTICLE III – ELIGIBILITY AND PARTICIPATION</b>	<b>9</b>
3.01 ELIGIBILITY TO PARTICIPATE:	9
3.02 TERMINATION OF ELIGIBILITY TO DEFER:	9
3.03 TERMINATION OF PARTICIPATION:	9
<b>ARTICLE IV – DEFERRAL OF COMPENSATION</b>	<b>10</b>
4.01 DEFERRAL ELECTION:	10
4.02 TIME AND MANNER OF DEFERRAL ELECTION:	10

## TABLE OF CONTENTS

	<u>Page</u>
4.03 PERIOD OF DEFERRAL; FORM OF PAYMENT:	11
4.04 SECOND LOOK ELECTION:	12
4.05 MANDATORY DEFERRALS:	14
<b>ARTICLE V – INTERESTS OF PARTICIPANTS</b>	<b>16</b>
5.01 ACCOUNTING FOR PARTICIPANTS’ INTERESTS:	16
5.02 PHANTOM INVESTMENT OF ACCOUNT:	16
5.03 VESTING OF A PARTICIPANT’S ACCOUNT:	19
5.04 PROHIBITED MISCONDUCT.	19
<b>ARTICLE VI – DISTRIBUTIONS</b>	<b>20</b>
6.01 GENERAL:	20
6.02 DISTRIBUTIONS BASED ON A SPECIFIC PAYMENT DATE:	21
6.03 DISTRIBUTIONS ON ACCOUNT OF A SEPARATION FROM SERVICE:	21
6.04 DISTRIBUTIONS ON ACCOUNT OF DEATH:	23
6.05 DISTRIBUTIONS ON ACCOUNT OF DISABILITY:	24
6.06 DISTRIBUTIONS ON ACCOUNT OF UNFORESEEABLE EMERGENCY:	25
6.07 DISTRIBUTIONS OF MANDATORY DEFERRALS:	25
6.08 VALUATION:	26
6.09 IMPACT OF SECTION 16 OF THE ACT ON DISTRIBUTIONS:	26
6.10 ACTUAL PAYMENT DATE:	26
<b>ARTICLE VII – PLAN ADMINISTRATION</b>	<b>27</b>
7.01 PLAN ADMINISTRATOR:	27
7.02 ACTION:	27
7.03 POWERS OF THE PLAN ADMINISTRATOR:	27
7.04 COMPENSATION, INDEMNITY AND LIABILITY:	28
7.05 WITHHOLDING:	29
7.06 SECTION 16 COMPLIANCE:	29
7.07 CONFORMANCE WITH SECTION 409A:	30
<b>ARTICLE VIII – CLAIMS PROCEDURE</b>	<b>31</b>
8.01 CLAIMS FOR BENEFITS:	31
8.02 APPEALS OF DENIED CLAIMS:	31
8.03 SPECIAL CLAIMS PROCEDURES FOR DISABILITY DETERMINATIONS:	31
<b>ARTICLE IX – AMENDMENT AND TERMINATION</b>	<b>32</b>
9.01 AMENDMENT OF PLAN:	32
9.02 TERMINATION OF PLAN:	32
<b>ARTICLE X – MISCELLANEOUS</b>	<b>33</b>
10.01 LIMITATION ON PARTICIPANT'S RIGHTS:	33
10.02 UNFUNDED OBLIGATION OF THE COMPANY:	33
10.03 OTHER PLANS:	33

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
10.04 RECEIPT OR RELEASE:	33
10.05 GOVERNING LAW:	33
10.06 GENDER, TENSE AND EXAMPLES:	34
10.07 SUCCESSORS AND ASSIGNS; NONALIENATION OF BENEFITS:	34
10.08 FACILITY OF PAYMENT:	34
<b>ARTICLE XI – AUTHENTICATION</b>	<b>35</b>
<b>ARTICLE XII – SIGNATURE</b>	<b>36</b>
<b>APPENDIX</b>	<b>Appendix</b>
<b>APPENDIX ARTICLE A – TRANSITION PROVISIONS</b>	<b>A-1</b>

PepsiCo, Inc. (the “Company”) established the PepsiCo Director Deferral Program (the “Plan”) to permit Eligible Directors to defer certain compensation paid to them as Directors.

The Plan consists of two primary components, each of which is subject to separate documentation: (i) deferrals under the Plan that were earned and vested prior to the 2004-2005 Compensation Year (the “Pre-409A Program”), and (ii) and deferrals under the Plan that were not earned and vested prior to the 2004-2005 Compensation Year (the “409A Program”). The 409A Program is governed by this document. The Pre-409A Program is governed by a separate set of documents. Except as otherwise provided herein, this document reflects the provisions in effect from and after January 1, 2005, and the rights and benefits of individuals who are Participants in the Plan from and after that date (and of those claiming through or on behalf of such individuals) shall be governed by the provisions of this document in the case of actions and events occurring on or after January 1, 2005, with respect to deferrals that are subject to the 409A Program. For purposes of the preceding sentence, the term “actions and events” shall include all distribution trigger events and dates. The rights and benefits with respect to persons who only participated in the Plan prior to January 1, 2005 shall be governed by the applicable provisions of the Pre-409A Program documents that were in effect at such time, and shall not be governed by the 409A Program documents.

The Plan was most recently restated on March 10, 2011. This restatement amended the Plan’s rules regarding installment payment options by (i) adding a 10-year installment payment option to the Plan, and (ii) eliminating the prohibition on the payment of installments after a Participant has attained age 80. The restatement also extended the minimum deferral period for elective deferrals to the first day of the Plan Year following the date that is 12 months after the date the Director Compensation would be payable to the Participant. All of these changes are effective for deferral elections made on and after March 11, 2011.

Together, the documents for the 409A Program and the documents for the Pre-409A Program describe the terms of a single plan. However, amounts subject to the terms of this 409A Program and amounts subject to the terms of the Pre-409A Program shall be tracked separately at all times. The preservation of the terms of the Pre-409A Program, without material modification, and the separation between the 409A Program amounts and the Pre-409A Program amounts are intended to permit the Pre-409A Program to remain exempt from Section 409A and the administration of the Plan shall be consistent with this intent.

For federal income tax purposes, the Plan is intended to be a nonqualified unfunded deferred compensation plan that is unfunded and unsecured. For purposes of ERISA, the Plan is intended to be exempt from ERISA coverage as a plan that solely benefits non-employees (or alternatively, a plan described in Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA providing benefits to a select group of management or highly compensated employees).

When used in this Plan, the following underlined terms shall have the meanings set forth below unless a different meaning is plainly required by the context:

2.01 Account:

The account maintained for a Participant on the books of the Company to determine, from time to time, the Participant's interest under this Plan. The balance in such Account shall be determined by the Plan Administrator. Each Participant's Account shall consist of at least one Deferral Subaccount for each separate deferral under Section 4.01. The Recordkeeper may also establish such additional Deferral Subaccounts as it deems necessary for the proper administration of the Plan. The Recordkeeper may also combine Deferral Subaccounts to the extent it deems separate accounts are not needed for sound recordkeeping. Where appropriate, a reference to a Participant's Account shall include a reference to each applicable Deferral Subaccount that has been established thereunder.

2.02 Act:

The Securities Exchange Act of 1934, as amended from time to time.

2.03 Beneficiary:

The person or persons (including a trust or trusts) properly designated by a Participant, as determined by the Plan Administrator, to receive the amounts in one or more of the Participant's Deferral Subaccounts in the event of the Participant's death in accordance with Section 4.02(c).

2.04 Code:

The Internal Revenue Code of 1986, as amended from time to time.

2.05 Company:

PepsiCo, Inc., a corporation organized and existing under the laws of the State of North Carolina, or its successor or successors.

2.06 Compensation Year:

The 12-month period of time for which Directors are compensated for their services on the Board of Directors, commencing with the annual retainer payable on October 1 in one calendar year and concluding on September 30 of the following calendar year.

2.07 Deferral Subaccount:

A subaccount of a Participant's Account maintained to reflect his or her interest in the Plan attributable to each deferral (or separately tracked portion of a deferral) of Director Compensation, and earnings or losses credited to such subaccount in accordance with Section 5.01(b).

2.08 Director:

A person who is a member of the Board of Directors of the Company and who is not currently an employee of the PepsiCo Organization.

2.09 Director Compensation:

Direct monetary remuneration to the extent paid in cash in U.S. dollars to the Eligible Director by the Company. Director Compensation shall not include the amount of any reimbursement by the Company for expenses incurred by the Eligible Director in the discharge of his or her duties as a member of the Board of Directors of the Company. Subject to the next sentence, the Director Compensation shall be limited to the amount due an Eligible Director for the discharge of his or her duties as a member of the Board of Directors of the Company, and shall be reduced for any applicable tax levies, garnishments and other legally required deductions. Notwithstanding the preceding sentence, an Eligible Director's Director Compensation may be reduced by an item described in the preceding sentence only to the extent such reduction does not violate Section 409A.

2.10 Disability:

A Participant shall be considered to suffer from a Disability, if, in the judgment of the Recordkeeper (based on the provisions of Section 409A and any guidelines established by the Plan Administrator for this purpose), the Participant –

(a) Is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or

(b) By reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, is receiving income replacement benefits for a period of not less than 3 months under an accident and health plan of the Company.

Solely for those Participants who are otherwise eligible for Social Security, a Participant who is determined to be totally disabled by the Social Security Administration will be deemed to satisfy the requirements of Subsection (a), and a Participant who has not been determined to be totally disabled by the Social Security Administration will be deemed to not meet the requirements of Subsection (a).

2.11 Distribution Valuation Date:

Each date as specified by the Plan Administrator from time to time as of which Participant Accounts are valued for purposes of a distribution from a Participant's Account. The current Distribution Valuation Dates are January 1, April 1, July 1 and October 1. Any current Distribution Valuation Date may be changed by the Plan Administrator, provided that such change does not result in a change in when deferrals are paid out that is impermissible under Section 409A. Values are determined as of the close of a Distribution Valuation Date or, if such date is not a business day, as of the close of the following business day.

2.12 Election Form:

The form prescribed by the Plan Administrator on which a Participant specifies the amount of his or her Director Compensation to be deferred and the timing and form of his or her deferral payout, pursuant to the provisions of Article IV. An Election Form need not exist in a paper format, and it is expressly authorized that the Plan Administrator may make available for use such technologies, including voice response systems, Internet-based forms and any other electronic forms, as it deems appropriate from time to time.

2.13 Eligible Director:

The term "Eligible Director" shall have the meaning given to it in Section 3.01(b).

2.14 ERISA:

Public Law 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.15 Fair Market Value:

For purposes of converting a Participant's deferrals to phantom PepsiCo Common Stock as of any date, the Fair Market Value of such stock is the closing price on such date (or if such date is not a trading date, the first date immediately following such date that is a trading date) for PepsiCo Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange, Inc., rounded to four decimal places. For purposes of determining the value of a Plan distribution, the Fair Market Value of phantom PepsiCo Common Stock is determined as the closing price on the applicable Distribution Valuation Date for PepsiCo Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange, Inc., rounded to four decimal places.

2.16 409A Program:

The term "409A Program" shall have the meaning given to it in Article 1.

2.17 Key Employee:

The individuals identified in accordance with the principles set forth below.

(a) General. Any Participant who at any time during the applicable year is –

- (1) An officer of any member of the PepsiCo Organization having annual compensation greater than \$130,000 (as adjusted for the applicable year under Code Section 416(i)(1));
- (2) A 5-percent owner of any member of the PepsiCo Organization; or
- (3) A 1-percent owner of any member of the PepsiCo Organization having annual compensation of more than \$150,000.

For purposes of (1) above, no more than 50 employees identified in the order of their annual compensation shall be treated as officers. For purposes of this Section, annual compensation means compensation as defined in Treas. Reg. §1.415(c)-2(a), without regard to Treas. Reg. §§1.415(c)-2(d), 1.415(c)-2(e), and 1.415(c)-2(g). The Plan Administrator shall determine who is a Key Employee in accordance with Code Section 416(i) and the applicable regulations and other guidance of general applicability issued thereunder or in connection therewith (provided, that Code Section 416(i)(5) shall not apply in making such determination), and provided further that the applicable year shall be determined in accordance with Section 409A and that any modification of the foregoing definition that applies under Section 409A shall be taken into account.

(b) Applicable Year. The Plan Administrator shall determine Key Employees as of the last day of each calendar year (the “determination date”), based on compensation for such year, and the designation for a particular determination date shall be effective for purposes of this Plan for the twelve month period commencing on April 1 of the next following calendar year (*e.g.*, the Key Employees determined by the Plan Administrator as of December 31, 2008, shall apply to the period from April 1, 2009, to March 31, 2010).

(c) Rule of Administrative Convenience. Effective on and after January 1, 2008, in addition to the foregoing, the Plan Administrator shall treat all other employees classified as Band IV and above on the applicable determination date prescribed in subsection (b) as Key Employees for purposes of the Plan for the twelve month period commencing on April 1<sup>st</sup> of the next following calendar year, provided that if this would result in counting more than 200 individuals as Key Employees as of any such determination date, then the number treated as Key Employees will be reduced to 200 by eliminating from consideration those employees otherwise added by this subsection (c) in order by their base compensation, from the lowest to the highest.

2.18 Mandatory Deferral:

The term “Mandatory Deferral” shall have the meaning given to it in Section 4.05.



2.19 Participant:

Any Director who is qualified to participate in this Plan in accordance with Section 3.01 and who has an Account. A Director or former Director who became a Participant in accordance with the preceding sentence shall remain a Participant until his or her participation terminates in accordance with Section 3.03. An active Participant is one who is currently deferring under Section 4.01.

2.20 PepsiCo Organization:

The controlled group of organizations of which the Company is a part, as defined by Code section 414(b) and (c) and the regulations issued thereunder. An entity shall be considered a member of the PepsiCo Organization only during the period it is one of the group of organizations described in the preceding sentence.

2.21 Plan:

The PepsiCo Director Deferral Program, comprised of (i) the 409A Program set forth herein and (ii) the Pre-409A Program set forth in a separate set of documents, as each may be amended and restated from time to time (subject to the limitations on amendment that are applicable hereunder and under the Pre-409A Program).

2.22 Plan Administrator:

The Board of Directors of the Company or its delegate or delegates, which shall have the authority to administer the Plan as provided in Article VII. As of the Effective Date, the Company's Senior Vice President, Compensation and Benefits is delegated the responsibility for the operational administration of the Plan. In turn, the Senior Vice President, Compensation and Benefits has the authority to re-delegate operational responsibilities to other persons or parties. As of the Effective Date, the Senior Vice President, Compensation and Benefits has re-delegated certain operational responsibilities to the Recordkeeper. However, references in this document to the Plan Administrator shall be understood as referring to the Board of Directors, the Senior Vice President, Compensation and Benefits and those delegated by the Senior Vice President, Compensation and Benefits other than the Recordkeeper. All delegations made under the authority granted by this Section are subject to Section 7.06.

2.23 Plan Year:

The 12-consecutive month period beginning on January 1 and ending on December 31.

2.24 Pre-409A Program:

The term "Pre-409A Program" shall have the meaning given to it in Article 1.

2.25 Recordkeeper:

For any designated period of time, the party (which may include the Company's Compensation Department) that is delegated the responsibility, pursuant to the authority granted in the definition of Plan Administrator, to maintain the records of Participant Accounts, process Participant transactions and perform other duties in accordance with any procedures and rules established by the Plan Administrator.

2.26 Second Look Election:

The term "Second Look Election" shall have the meaning given to it in Section 4.04.

2.27 Section 409A:

Code Section 409A and the applicable regulations and other guidance of general applicability that are issued thereunder.

2.28 Separation from Service:

A Participant's separation from service as defined in Section 409A; provided that for purposes determining whether a Separation from Service has occurred, the Plan has determined, based upon legitimate business criteria, to use the twenty percent (20%) test described in Treas. Reg. §1.409A-1(h)(3). In the event the Participant also provides services other than as a Director for the Company and its affiliates, as determined under the prior sentence, such other services shall not be taken into account in determining when a Separation from Service occurs to the extent permitted under Treas. Reg. § 1.409A-1(h)(5). The term may also be used as a verb (*i.e.*, "Separates from Service") with no change in meaning.

2.29 Specific Payment Date:

A specific date selected by an Eligible Director that triggers a lump sum payment of a deferral or the start of installment payments for a deferral, as specified in Section 4.03 or 4.04. The Specific Payment Dates that are available to be selected by Eligible Directors shall be determined by the Plan Administrator. With respect to any deferral, the currently available Specific Payment Date(s) shall be the date or dates reflected on the Election Form or the Second Look Election form that is made available by the Plan Administrator for the deferral. In the event that an Election Form or Second Look Election form only provides for selecting a month and a year as the Specific Payment Date, the first day of the month that is selected shall be the Specific Payment Date. As of the Effective Date, the Specific Payment Date is January 1 of the year specified by the Eligible Director.

2.30 Unforeseeable Emergency:

A severe financial hardship to the Participant resulting from –

(a) An illness or accident of the Participant, the Participant's spouse, the Participant's Beneficiary or the Participant's dependent (as defined in Code Section 152(a) without regard to Code Sections 152(b)(1), 152(b)(2) and 152(d)(1)(B));

(b) Loss of the Participant's property due to casualty (including, effective January 1, 2009, the need to rebuild a home following damage to the home not otherwise covered by insurance); or

(c) Any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

The Recordkeeper shall determine the occurrence of an Unforeseeable Emergency in accordance with Treas. Reg. §1.409A-3(i)(iii) and any guidelines that may be established by the Plan Administrator.

2.31 Valuation Date:

Each business day, as determined by the Recordkeeper, as of which Participant Accounts are valued in accordance with Plan procedures that are currently in effect. The Plan Administrator may change the Valuation Dates for future deferrals at any time before the election to make such deferrals becomes irrevocable under the Plan. The Plan Administrator may change the Valuation Dates for existing deferrals only to the extent that such change is permissible under Section 409A.

3.01 Eligibility to Participate:

(a) An individual shall be eligible to defer compensation under the Plan during the period that he or she is a Director hereunder.

(b) During the period an individual satisfies the eligibility requirements of this Section, he or she shall be referred to as an Eligible Director.

(c) Each Eligible Director shall become an active Participant on the earlier of the date an amount is first withheld from his or her compensation pursuant to an Election Form submitted by the Director to the Plan Administrator under Section 4.01 or, effective October 1, 2007, the date on which a Mandatory Deferral is first credited to the Plan on his or her behalf under Section 4.05.

3.02 Termination of Eligibility to Defer:

An individual's eligibility to participate actively by making deferrals under Section 4.01 shall cease as soon as administratively practicable following the date he or she ceases to be a Director.

3.03 Termination of Participation:

An individual, who has been an active Participant under the Plan, ceases to be a Participant on the date his or her Account is fully paid out.

**4.01 Deferral Election:**

(a) Each Eligible Director may make an election to defer under the Plan in 10% increments up to 100% of his or her Director Compensation for a Compensation Year (disregarding any Director Compensation that is subject to a Mandatory Deferral pursuant to Section 4.05) in the manner described in Section 4.02. Such election to defer shall apply to Director Compensation that is earned for services performed in the corresponding Compensation Year. A newly Eligible Director may only defer the portion of his or her eligible Director Compensation for the Compensation Year in which he or she becomes an Eligible Director that is earned for services performed after the date of his or her election. For this purpose, if a valid Election Form is received prior to the date on which the Eligible Director becomes a Director and the Election Form is effective under Section 4.02(a) as of the date on which the Eligible Director becomes a Director, then the Director shall be deemed to receive all of his or her Director Compensation for the Compensation Year in which he or she becomes an Eligible Director after the date of the election. Any Director Compensation deferred by an Eligible Director for a Compensation Year will be deducted for each payment period during the Compensation Year for which he or she has Director Compensation and is an Eligible Director. Director Compensation paid after the end of a Compensation Year for services performed during such initial Compensation Year shall be treated as Director Compensation for services performed during such initial Compensation Year.

(b) To be effective, an Eligible Director's Election Form must set forth the percentage of Director Compensation to be deferred and any other information that may be requested by the Plan Administrator from time to time. In addition, the Election Form must meet the requirements of Section 4.02.

**4.02 Time and Manner of Deferral Election:**

(a) Deferral Election Deadlines. An Eligible Director must make a deferral election for Director Compensation earned for services performed in a Compensation Year no later than December 31 of the calendar year immediately prior to the beginning of the Compensation Year (although the Plan Administrator may adopt policies that encourage or require earlier submission of election forms). If December 31 of such year is not a business day, then the deadline for deferral elections will be the first business day preceding December 31 of such year. In addition, an individual, who has been nominated for Director status, must submit an Election Form prior to becoming an Eligible Director or otherwise prior to rendering services as an Eligible Director, and such Election Form will be effective immediately upon commencement of the individual's status as an Eligible Director or otherwise upon commencement of his or her services as an Eligible Director.

(b) General Provisions. A separate deferral election under subsection (a) above must be made by an Eligible Director for each Compensation Year's compensation that is eligible for deferral. If a properly completed and executed Election Form is not actually received by the Plan Administrator (or, if authorized by the Plan Administrator for this purpose,

the Recordkeeper) by the prescribed time in subsection (a) above, the Eligible Director will be deemed to have elected not to defer any Director Compensation for the applicable Compensation Year. Except as provided in the next sentence, an election is irrevocable once received and determined by the Plan Administrator to be properly completed (and such determination shall be made not later than the last date for making the election in question). Increases or decreases in the amount or percentage a Participant elects to defer shall not be permitted after the beginning of the calendar year during which the applicable Compensation Year begins; provided that if a Participant receives a distribution on account of an Unforeseeable Emergency pursuant to Section 6.06, the Plan Administrator may cancel the Participant's deferral election for the year in which such distribution occurs. If an election is cancelled because of a distribution on account of an Unforeseeable Emergency, such cancellation shall permanently apply to the deferral election for such year, and the Participant will only be eligible to make a new deferral election for the next year pursuant to the rules in Sections 4.01 and 4.02.

(c) Beneficiaries. A Participant may designate on the Election Form (or in some other manner authorized by the Plan Administrator) one or more Beneficiaries to receive payment, in the event of his or her death, of the amounts credited to his or her Account; provided that, to be effective, any Beneficiary designation must be in writing, signed by the Participant, and must meet such other standards (including any requirement for spousal consent) as the Plan Administrator shall require from time to time. The Beneficiary designation must also be filed with the Plan Administrator (or Recordkeeper, if designated by the Plan Administrator for this purpose) prior to the Participant's death. An incomplete Beneficiary designation, as determined by the Plan Administrator (or Recordkeeper, if designated by the Plan Administrator for this purpose), shall be void and no effect. In determining whether a Beneficiary designation that relates to the Plan is in effect, unrevoked designations that were received under the Pre-409A Program or prior to the Effective Date shall be considered. A Beneficiary designation of an individual by name remains in effect regardless of any change in the designated individual's relationship to the Participant. Any Beneficiary designation submitted to the Plan Administrator (or Recordkeeper, if designated by the Plan Administrator for this purpose) that only specifies a Beneficiary by relationship shall not be considered an effective Beneficiary designation and shall be void and of no effect. If more than one Beneficiary is specified and the Participant fails to indicate the respective percentage applicable to two or more Beneficiaries, then each Beneficiary for whom a percentage is not designated will be entitled to an equal share of the portion of the Account (if any) for which percentages have not been designated. At any time, a Participant may change a Beneficiary designation for his or her Account in a writing that is signed by the Participant and filed with the Plan Administrator (or Recordkeeper, if designated by the Plan Administrator for this purpose) prior to the Participant's death, and that meets such other standards as the Plan Administrator shall require from time to time. An individual who is otherwise a Beneficiary with respect to a Participant's Account ceases to be a Beneficiary when all payments have been made from the Account.

#### 4.03 Period of Deferral; Form of Payment:

(a) Period of Deferral. An Eligible Director making a deferral election shall specify a deferral period on his or her Election Form by designating either a Specific Payment Date or the date he or she incurs a Separation from Service. Solely for elections made prior to

March 11, 2011, an Eligible Director's Specific Payment Date shall not be later than his or her 80<sup>th</sup> birthday (and the specification of such a later date shall be deemed instead to specify the Director's 80<sup>th</sup> birthday as the Specific Payment Date). In addition, an Eligible Director shall be deemed to have elected a period of deferral of not less than the first day of the Plan Year after (i) for elections made on or after March 11, 2011, the date that is 12 months after the date the Director Compensation would have been paid absent the deferral, and (ii) for elections made prior to March 11, 2011, the end of the Plan Year during which the Director Compensation would have been paid absent the deferral. If the Specific Payment Date selected by an Eligible Director would result in a period of deferral that is less than the minimum, the Eligible Director shall be deemed to have selected a Specific Payment Date equal to the minimum period of deferral as provided in the preceding sentence. If an Eligible Director fails to affirmatively designate a period of deferral on his or her Election Form, he or she shall be deemed to have specified the date on which he or she incurs a Separation from Service.

(b) Form of Payment. This subsection (b) is effective for elective deferral elections filed for Compensation Years beginning from and after October 1, 2009; see the Appendix for rules applicable prior to that date.

(1) Elections On or After March 11, 2011. Effective for elections made on or after March 11, 2011, an Eligible Director making a deferral election shall specify a form of payment on his or her Election Form by designating either a lump sum payment or annual installment payments to be paid over a period 5 or 10 years.

(2) Elections Prior to March 11, 2011. Effective for elections made prior to March 11, 2011, an Eligible Director making a deferral election shall specify a form of payment on his or her Election Form by designating either a lump sum payment or annual installment payments to be paid over a period of 5 years but not later than the Eligible Director's 80<sup>th</sup> birthday. If the Eligible Director elects installment payments and the installments would otherwise extend beyond the Eligible Director's 80<sup>th</sup> birthday, such election shall be treated as an election for installments over a period of whole and partial years that ends on the Eligible Director's 80<sup>th</sup> birthday; provided that the amounts to be distributed in connection with the installments prior to the Eligible Director's 80<sup>th</sup> birthday shall be determined in accordance with Section 6.08 by assuming that the installments shall continue for the full number of installments with the entire remaining amount of the relevant Deferral Subaccount distributed on the Eligible Director's 80<sup>th</sup> birthday.

If an Eligible Director fails to make a form of payment election for a deferral under paragraphs (1) or (2) above, he or she shall be deemed to have elected a lump sum payment. Initial form of payment elections for Mandatory Deferrals are governed by Section 4.05.

#### 4.04 Second Look Election:

(a) General. Subject to Subsection (b) below, a Participant who has made a valid initial deferral in accordance with the foregoing provisions of this Article may subsequently make another one-time election regarding the time and/or form of payment of his or her deferral.

This opportunity to modify the Participant's initial election is referred to as a "Second Look Election."

(b) Requirements for Second Look Elections. A Second Look Election must comply with all of the following requirements:

(1) If a Participant's initial election specified payment based on a Specific Payment Date, the Participant may only make a Second Look Election if the election is made at least 12 months before the Participant's original Specific Payment Date. In addition, in this case the Participant's Second Look Election must provide for a new Specific Payment Date that is at least 5 years after the original Specific Payment Date. For Second Look Elections made prior to March 11, 2011, if the Specific Payment Date applicable pursuant to the Second Look Election is after the Participant's 80<sup>th</sup> birthday, either by the Participant's choice or if necessary to comply with the 5-year rule stated above, the Second Look Election is void.

(2) If a Participant's initial election specified payment based on the Participant's Separation from Service, the Participant may only make a Second Look Election if the election is made at least 12 months before the Participant's Separation from Service. In addition, in this case the Participant must elect a new Specific Payment Date that turns out to be at least 5 years after the Participant's Separation from Service. If the new Specific Payment Date selected in the Second Look Election turns out to be less than five years after the Participant's Separation from Service, the Second Look Election is void.

(3) A Participant may make only one Second Look Election for each individual deferral, and each Second Look Election must comply with all of the relevant requirements of this Section.

(4) A Participant who uses a Second Look Election to change the form of the Participant's payment from a lump sum to installments shall be subject to the rules for installment payment elections in Sections 4.03(b)(1) and (2), and such installment payments must begin no earlier than 5 years after when the lump sum payment would have been paid based upon the Participant's initial election.

(5) If a Participant's initial election specified payment in the form of installments and the Participant wants to elect instead payment in a lump sum, the earliest payment date of the lump sum must be no earlier than 5 years after the first payment date that applied under the Participant's initial installment election.

(6) For purposes of this Section, all of a Participant's installment payments related to a specific deferral election shall be treated as a single payment.

A Second Look Election will be void and payment will be made based on the Participant's original election under Section 4.03 if all of the relevant provisions of this subsection (b) are not satisfied in full. However, if a Participant's Second Look Election



becomes effective in accordance with the provisions of subsection (b), the Participant's original election shall be superseded (including any Specific Payment Date specified therein), and the original election shall not be taken into account with respect to the deferral that is subject to the Second Look Election.

(c) Plan Administrator's Role. Each Participant has the sole responsibility to elect a Second Look Election by contacting the Plan Administrator (or, if authorized by the Plan Administrator, the Recordkeeper) and to comply with the requirements of this Section. The Plan Administrator or the Recordkeeper may provide a notice of a Second Look Election opportunity to some or all Participants, but the Recordkeeper and Plan Administrator is under no obligation to provide such notice (or to provide it to all Participants, in the event a notice is provided only to some Participants). The Recordkeeper and the Plan Administrator have no discretion to waive or otherwise modify any requirement for a Second Look Election set forth in this Section or in Section 409A.

#### 4.05 Mandatory Deferrals:

(a) General. As provided in this Section, the Board of Directors of the Company may require that Director Compensation be deferred under the Plan. Such portion of an Eligible Director's Director Compensation for a Compensation Year that the Board of Directors of the Company requires to be deferred under this Section 4.05 shall be referred to as a "Mandatory Deferral."

(b) Time for Committee's Determination. To be effective hereunder, any determination by the Board of Directors of the Company to require a Mandatory Deferral of a portion of an Eligible Director's Director Compensation for a Compensation Year must be made no later than the December 31 immediately preceding the calendar year in which the Eligible Director performs the services to which such Director Compensation relates (or, to the extent the Eligible Director is not permitted to make any payment election with respect to such Mandatory Deferral and it would result in a later deadline, immediately prior to the time the Eligible Director first has a legally binding right to such Director Compensation). As of such date or time, the determination by the Board of Directors of the Company to require the deferral of the Director Compensation shall be irrevocable. Any Mandatory Deferral for a Compensation Year shall be credited to a separate Deferral Subaccount for such Compensation Year.

(c) Current Mandatory Deferrals. Pursuant to a September 14, 2007 resolution of the Board of Directors of the Company, a Mandatory Deferral of \$150,000 shall be credited as of October 1 of each Compensation Year to each individual who is an Eligible Director on such October 1, commencing with a Mandatory Deferral on October 1, 2007; provided that (1) a Director newly appointed or elected to the Board of Directors of the Company during a Compensation Year shall be credited with a pro-rated Mandatory Deferral as of the commencement date of his or her status as a Director, with such pro-rated amount determined by multiplying the Mandatory Deferral for the current Compensation Year by the ratio of the number of full and partial quarters remaining during the Compensation Year as of such commencement date over four, and (2) the Board of Directors of the Company retains the discretion to change the amount subject to Mandatory Deferral or eliminate Mandatory Deferrals

entirely with respect to Compensation Years after the 2007-2008 Compensation Year. At the same time, any such discretion shall not alter the determination to defer Director Compensation to the extent such determination has become irrevocable with respect to specific Director Compensation in accordance with subsection (b) above. However, the preceding sentence shall not limit the discretion of the Company's Board of Directors to forfeit outright specific Director Compensation.

(d) Time and Form of Payment. Each Mandatory Deferral shall be distributed in accordance with Section 6.07. The Eligible Director shall specify the form of payment of each of his or her Mandatory Deferrals in accordance with the following:

(1) Elections On or After March 11, 2011. Effective for elections made on or after March 11, 2011, an Eligible Director shall designate either a lump sum payment or annual installment payments to be paid over a period of 5 or 10 years.

(2) Elections Prior to March 11, 2011. Effective for elections made prior to March 11, 2011, an Eligible Director shall designate either a lump sum payment or annual installment payments to be paid over a period of 5 years. Installments are not available if the first installment would begin on or after the Eligible Director's 80<sup>th</sup> birthday. If the Eligible Director elects installment payments and the installments would otherwise begin before and extend beyond the Eligible Director's 80<sup>th</sup> birthday, such election shall be treated as an election for installments over a period of whole and partial years that ends on the Eligible Director's 80<sup>th</sup> birthday; provided that the amounts to be distributed in connection with the installments prior to the Eligible Director's 80<sup>th</sup> birthday shall be determined in accordance with Section 6.08 by assuming that the installments shall continue for the full number of installments, with the entire remaining amount of the relevant Deferral Subaccount distributed on the Eligible Director's 80<sup>th</sup> birthday. No such election shall be permitted for the Mandatory Deferral for the 2007-2008 Compensation Year.

If permitted under paragraphs (1) or (2) above, an Eligible Director shall make a form of payment election with respect to a Mandatory Deferral no later than December 31 immediately preceding the calendar year in which the Eligible Director provides the services to which the Mandatory Deferral relates (although the Plan Administrator may adopt policies that encourage or require earlier submission of election forms). In addition, an individual shall not be eligible to make a form of payment election for a Mandatory Deferral granted to an individual for his first Compensation Year as an Eligible Director, unless such individual submits the election prior to becoming an Eligible Director or otherwise prior to rendering services as an Eligible Director, and then such election shall be effective immediately upon commencement of the individual's status as an Eligible Director or otherwise upon commencement of his or her services as an Eligible Director. If an Eligible Director does not (or is not permitted to) make a form of payment election for a Mandatory Deferral, the Mandatory Deferral shall be paid in a lump sum. The Eligible Director shall be entitled to elect to change the time and form of payment in accordance with Section 4.04 only to the extent expressly permitted by the Board of Directors.

5.01 Accounting for Participants' Interests:

(a) Deferral Subaccounts. Each Participant shall have at least one separate Deferral Subaccount for each separate deferral of Director Compensation made by the Participant under this Plan. A Participant's deferral shall be credited as of the date of the deferral to his or her Account as soon as administratively practicable following the date the compensation would be paid in the absence of a deferral. A Participant's Account is a bookkeeping device to track the value of the Participant's deferrals and the Company's liability therefor. No assets shall be reserved or segregated in connection with any Account, and no Account shall be insured or otherwise secured.

(b) Account Earnings or Losses. As of each Valuation Date, a Participant's Account shall be credited with earnings and gains (and shall be debited for expenses and losses) determined as if the amounts credited to the Participant's Account had actually been invested in accordance with this Article. The Plan provides only for "phantom investments," and therefore such earnings, gains, expenses and losses are hypothetical and not actual. However, they shall be applied to measure the value of a Participant's Account and the amount of the Company's liability to make deferred payments to or on behalf of the Participant.

5.02 Phantom Investment of Account:

(a) General. Each of a Participant's Deferral Subaccounts shall be invested on a phantom basis as provided in this Section.

(1) Participants Who Are Currently Directors. The Deferral Subaccounts of a Participant who is currently a Director shall be invested on a phantom basis solely in PepsiCo Common Stock pursuant to subsection (b) below.

(2) All Other Participants. Not before the later of a Participant's diversification date (as defined below) and March 11, 2011, the Deferral Subaccounts of a Participant who ceases to be a Director may be invested on a phantom basis in any combination of phantom investment options specified by the Participant (or following the Participant's death, by his or her Beneficiary) from the option in subsection (b) and those options offered by the Plan Administrator under subsection (c) below for this purpose from time to time. A Participant's diversification date shall be the first day of the calendar quarter beginning after the first anniversary of when he or she ceases to be a Director. Prior to the later of a Participant's diversification date and March 11, 2011, the Deferral Subaccounts of a Participant who ceases to be a Director shall be invested on a phantom basis solely in PepsiCo Common Stock pursuant to subsection (b) below. The effective date of an investment election that is permissible under this subsection is determined under subsection (d) below.

(3) Participants Who Return to Director Status. If a former Director subsequently returns to Director status, deferrals made during the period prior to his or her return to Director status shall be subject to paragraph (2) above, and deferrals made during the period in which he or she is again a Director shall be subject to paragraph (1) above.

(b) Phantom PepsiCo Common Stock. Participant Accounts invested in this phantom option are adjusted to reflect an investment in PepsiCo Common Stock. An amount deferred into this option is converted to phantom shares (or units) of PepsiCo Common Stock of equivalent value by dividing such amount by the Fair Market Value of a share of PepsiCo Common Stock (or of a unit in the Account) on the Valuation Date as of which the amount is treated as invested in this option by the Plan Administrator. The Plan Administrator shall adopt a fair valuation methodology for valuing a phantom investment in this option, such that the value shall reflect the complete value of an investment in PepsiCo Common Stock in accordance with the following Paragraphs below.

(1) The Plan Administrator shall value a phantom investment in PepsiCo Common Stock pursuant to an accounting methodology which unitizes partial shares as well as any amounts that would be received by the Account as dividends (if dividends were paid on phantom shares/units of PepsiCo Common Stock as they are on actual shares of equivalent value). For the time period this methodology is chosen, partial shares and the above dividends shall be converted to units and credited to the Participant's investment in the phantom PepsiCo Common Stock.

(2) A Participant's interest in the phantom PepsiCo Common Stock is valued as of a Valuation Date by multiplying the number of phantom shares (or units) credited to his or her Account on such date by the Fair Market Value of a share of PepsiCo Common Stock (or of a unit in the Account) on such date.

(3) If shares of PepsiCo Common Stock change by reason of any stock split, stock dividend, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or any other corporate change treated as subject to this provision by the Plan Administrator, such equitable adjustment shall be made in the number and kind of phantom shares/units credited to an Account or Deferral Subaccount as the Plan Administrator may determine to be necessary or appropriate.

(4) In no event will shares of PepsiCo Common Stock actually be purchased or held under this Plan, and no Participant shall have any rights as a shareholder of PepsiCo Common Stock on account of an interest in this phantom option.

(c) Other Funds. From time to time, the Plan Administrator shall designate which (if any) other investment options shall be available as phantom investment options under the Plan. These phantom investment options shall be described in materials provided to Participants from time to time. Any of these phantom investment options shall be administered under procedures implemented from time to time by the Plan Administrator. Unless otherwise specified in these materials or procedures, in the case of any such phantom investment option

that is based on a unitized fund, an amount deferred or transferred into such option is converted to phantom units in the applicable fund of equivalent value by dividing such amount by the NAV of a unit in such fund on the Valuation Date as of which the amount is treated as invested in this option by the Plan Administrator. Thereafter, a Participant's interest in each such phantom option is valued as of a Valuation Date (or a Distribution Valuation Date) by multiplying the number of phantom units credited to his or her Account on such date by the NAV of a unit in such fund on such date. The Plan Administrator may discontinue any phantom investment option with respect to some or all Accounts, and it may provide rules for transferring a Participant's phantom investment from the discontinued option to a specified replacement option (unless the Participant selects another replacement option in accordance with such requirements as the Plan Administrator may apply).

(d) Fund Transfers. A Participant to whom subsection (c)'s phantom investment options are available may reallocate previously deferred amounts in a Deferral Subaccount by properly completing and submitting a fund transfer form provided by the Plan Administrator or Recordkeeper and specifying, in one percent increments, the reallocation of his or her Deferral Subaccount among the phantom investment options then offered by the Plan Administrator for this purpose. (The rules relating to non-paper formats for Election Forms shall also apply to the fund transfer form.) If a fund transfer form provides for investing less than or more than 100% of the Participant's Deferral Subaccount, it will be void and disregarded. Any transfer form that is not void under the preceding sentence shall be effective as of the Valuation Date next occurring after its receipt by the Recordkeeper, but the Plan Administrator or Recordkeeper may also specify a minimum number of days in advance of which such transfer form must be received in order for the form to become effective as of such next Valuation Date. If more than one fund transfer form is received on a timely basis, the form that the Plan Administrator or Recordkeeper determines to be the most recent shall be followed.

(e) Authority of Recordkeeper. Any valuation or other determination that is required to be made under this Section by the Plan Administrator may also be made by the Recordkeeper, if the Recordkeeper has been authorized by the Plan Administrator to make such valuation or determination.

(f) Phantom PepsiCo Common Stock Fund Restrictions. Notwithstanding the preceding provisions of this Section, the Plan Administrator may at any time alter the effective date of any investment or allocation involving the Phantom PepsiCo Common Stock Fund pursuant to Section 7.03(j) (relating to safeguards against insider trading). The Plan Administrator may also, to the extent necessary to ensure compliance with Rule 16b-3(f) of the Act, arrange for tracking of any such transaction defined in Rule 16b-3(b)(1) of the Act and bar any such transaction to the extent it would not be exempt under Rule 16b-3(f). The Company may also impose blackout periods pursuant to the requirements of the Sarbanes-Oxley Act of 2002 whenever the Company determines that circumstances warrant. Further, the Company may impose quarterly blackout periods on insider trading in the Phantom PepsiCo Common Stock Fund as needed (as determined by the Company), timed to coincide with the release of the Company's quarterly earnings reports. The commencement and termination of these blackout periods in each quarter, the parties to which they apply and the activities they restrict shall be as set forth in the official insider trading policy promulgated by the Company from time to time.

These provisions shall apply notwithstanding any provision of the Plan to the contrary except Section 7.07 (relating to compliance with Section 409A).

5.03 Vesting of a Participant's Account:

A Participant's interest in the value of his or her Account shall at all times be 100% vested, which means that it will not forfeit as a result of his or her Separation from Service.

5.04 Prohibited Misconduct.

(a) Effective for Mandatory Deferrals and elective deferrals of Director Compensation for the 2011-2012 and later Compensation Years, a Participant who engages in "Prohibited Misconduct" shall, at the sole discretion of the Board of Directors of the Company (and in addition to any other remedies available to the Board and/or the Company), forfeit the entire amount in his or her Account attributable to – (i) Mandatory Deferrals of Director Compensation for the 2011-2012 and later Compensation Years, including all current and future earnings and gains thereon, and (ii) all current and future earnings and gains attributable to elective deferrals of Director Compensation for the 2011-2012 and later Compensation Years.

(b) For purposes of subsection (a) above, "Prohibited Misconduct" shall mean: (i) the use for profit or disclosure to unauthorized persons of confidential information or trade secrets of the Company; (ii) the breach of any contract with the Company or violation of any obligation to the Company, including, without limitation, a violation of the Company's Worldwide Code of Conduct; (iii) engaging in unlawful trading in the securities of the Company or of another company based on information gained as a result of the Participant's position with the Company; or (iv) the commission of a felony or other serious crime.

**6.01 General:**

A Participant's Deferral Subaccount(s) shall be distributed as provided in this Article, subject in all cases to Section 7.03(j) (relating to safeguards against insider trading) and Section 7.06 (relating to compliance with Section 16 of the Act). All Deferral Subaccount balances shall be distributed in cash; provided, however, that effective for distributions made after September 12, 2008, the distribution of a Participant's interest in phantom PepsiCo Common Stock shall be paid in shares of PepsiCo Common Stock which will be deemed to have been distributed under the PepsiCo, Inc. 2007 Long Term Incentive Plan or any successor plan thereto and will count against the limit on the number of shares of PepsiCo Common Stock available for distribution thereunder. If the number of shares of PepsiCo Common Stock to be distributed is not a whole number of shares, the number of shares to be distributed will be rounded down to the closest whole number of shares and the remaining amount will be paid in cash based on the Fair Market Value of a share of PepsiCo Common Stock on the Distribution Valuation Date corresponding to the distribution. In no event shall any portion of a Participant's Account be distributed earlier or later than is allowed under Section 409A. The following general rules shall apply for purposes of interpreting the provisions of this Article VI.

(a) Section 6.02 (Distributions Based on a Specific Payment Date) applies when a Participant has elected to defer until a Specific Payment Date and the Specific Payment Date is reached before the Participant's Disability or death. If such a Participant dies prior to the Specific Payment Date, Section 6.04 shall apply to the extent it would result in an earlier distribution of all or part of a Participant's Account. If such a Participant becomes Disabled prior to the Specific Payment Date, Section 6.05 shall apply to the extent it would result in an earlier distribution of all or part of a Participant's Account.

(b) Section 6.03 (Distributions on Account of a Separation from Service) applies when a Participant has elected to defer until a Separation from Service and then the Participant Separates from Service (other than as a result of death). Subsections (c) and (d) of this Section provide for when Section 6.04 or 6.06 take precedence over Section 6.03.

(c) Section 6.04 (Distributions on Account of Death) applies when the Participant dies. If a Participant is entitled to receive or is receiving a distribution under Section 6.02 or 6.03 (see below) at the time of his or her death, Section 6.04 shall take precedence over those sections to the extent Section 6.04 would result in an earlier distribution of all or part of a Participant's Account.

(d) Section 6.05 (Distributions on Account of Disability) applies when the Participant becomes Disabled. If a Participant who becomes Disabled dies, Section 6.04 shall take precedence over Section 6.05 to the extent it would result in an earlier distribution of all or part of a Participant's Account. If a Participant is entitled to receive or is receiving a distribution under Section 6.02 or 6.03 at the time of his Disability, Section 6.05 shall take precedence over those

sections to the extent Section 6.05 would result in an earlier distribution of all or part of a Participant's Account.

(e) Section 6.06 (Distributions on Account of Unforeseeable Emergency) applies when the Participant incurs an Unforeseeable Emergency prior to when a Participant's Account is distributed under Sections 6.02 through 6.05. In this case, the provisions of Section 6.06 shall take precedence over Sections 6.02 through 6.05 to the extent Section 6.06 would result in an earlier distribution of all or part of the Participant's Account.

6.02 Distributions Based on a Specific Payment Date:

This Section shall apply to distributions that are to be made upon the occurrence of a Specific Payment Date. In the event a Participant's Specific Payment Date for a Deferral Subaccount is reached before (i) the Participant's Disability or (ii) the Participant's death, such Deferral Subaccount shall be distributed based on the occurrence of such Specific Payment Date in accordance with the following terms and conditions:

(a) If a Participant's Deferral Subaccount is to be paid in the form of a lump sum pursuant to Sections 4.03 or 4.04, whichever is applicable, the Deferral Subaccount shall be valued as of the last Distribution Valuation Date that occurs on or immediately precedes the Specific Payment Date, and the resulting amount shall be paid in a single lump sum on the Specific Payment Date.

(b) If a Participant's Deferral Subaccount is to be paid in the form of installments pursuant to Section 4.03 or 4.04, whichever is applicable, the Deferral Subaccount shall be valued as of the last Distribution Valuation Date that occurs on or immediately precedes the Specific Payment Date and the first installment payment shall be paid on the Specific Payment Date. Thereafter, installment payments shall continue in accordance with the schedule elected by the Participant on the Election Form or the Second Look Election (whichever is applicable, and subject in each case to the provisions of this Plan that constrain such elections), except as provided in Sections 6.04, 6.05 and 6.06 (relating to distributions on account of death, Disability and Unforeseeable Emergency). The amount of each installment shall be determined under Section 6.08. Notwithstanding the preceding provisions of this Subsection, if before the date the last installment distribution is processed for payment the Participant would be entitled to a distribution in accordance with Sections 6.04 or 6.05 (relating to a distribution on account of death or Disability), the remaining balance of the Participant's Deferral Subaccounts that would otherwise be distributed based on such Specific Payment Date shall instead be distributed in accordance with Section 6.04 or 6.05 (relating to distributions on account of death or Disability), whichever applies, but only to the extent it would result in an earlier distribution of the Participant's Subaccounts in the case of Section 6.04 or 6.05.

6.03 Distributions on Account of a Separation from Service:

This Section shall apply to distributions that are to be made upon Separation from Service. When used in this Section, the phrase "Separation from Service" shall only refer to a Separation from Service that is not for Disability or death.



(a) If the Participant's Separation from Service is prior to the Specific Payment Date that is applicable to a Deferral Subaccount, the Participant's deferral election pursuant to Sections 4.03 or 4.04 (*i.e.*, time and form of payment) shall continue to be given effect, and the Deferral Subaccounts shall be distributed based upon the provisions of Section 6.02.

(b) If the Participant has selected payment of his or her deferral on account of Separation from Service, distribution of the related Deferral Subaccount shall commence as follows:

(1) for deferrals of Director Compensation other than Mandatory Deferrals, distribution of the related Deferral Subaccount shall commence on the first day of the Plan Year following the end of the Plan Year in which the Participant's Separation from Service occurs; and

(2) for Mandatory Deferrals, distribution of the related Deferral Subaccount shall commence on the first day of the calendar quarter beginning after the first anniversary of the Participant's Separation from Service occurs.

(c) The distribution provided in subsection (b) shall be made in either a single lump sum payment or in installment payments depending upon the Participant's deferral election under Sections 4.03, 4.04 or 4.05. If the Deferral Subaccount is to be paid in the form of a lump sum, the Deferral Subaccount shall be valued as of the last Distribution Valuation Date that occurs on or immediately precedes the date of the Participant's Separation from Service and the resulting amount shall be distributed in a lump sum on the date specified in subsection (b) above. If a Participant's Deferral Subaccount is to be paid in the form of installments pursuant to Section 4.03 or 4.04, whichever is applicable, the Deferral Subaccount shall be valued as of the last Distribution Valuation Date that occurs on or immediately precedes the date of the Participant's Separation from Service and the first installment payment shall be paid on the date specified in subsection (b) above. Thereafter, installment payments shall continue in accordance with the schedule elected by the Participant on his/her deferral election form or Second Look Election (and subject in each case to the provisions of this Plan that constrain such elections), except as provided in Sections 6.04, 6.05 and 6.06 (relating to distributions on account of death, Disability and Unforeseeable Emergency). The amount of each installment shall be determined under Section 6.08. Notwithstanding the preceding provisions of this Subsection, if before the date the last installment distribution is processed for payment the Participant would be entitled to a distribution in accordance with Sections 6.04 or 6.05 (relating to a distribution on account of death or Disability), the remaining balance of the Participant's Deferral Subaccounts that would otherwise be distributed based on such Separation from Service shall instead be distributed in accordance with Section 6.04 or 6.05 (relating to distributions on account of death or Disability), whichever applies, but only to the extent it would result in an earlier distribution of the Participant's Subaccounts in the case of Section 6.04 or 6.05.

(d) Notwithstanding subsections (a), (b) and (c) above, if the Participant is classified as a Key Employee at the time of the Participant's Separation from Service (or at such

other time for determining Key Employee status as may apply under Section 409A), then such Participant's Account shall not be paid, as a result of the Participant's Separation from Service, earlier than the date that is at least 6 months after the Participant's Separation from Service. In such event:

(1) any applicable lump sum payment shall be valued as of the Distribution Valuation Date that corresponding to the date that is 6 months after the date of the Participant's Separation from Service and the resulting amount shall be distributed on the date that is 6 months after the date of the Participant's Separation from Service; and

(2) any installment payments that would otherwise have been paid during such 6 month period shall be valued as of the Distribution Valuation Date that corresponds to the date that is 6 months after the date of the Participant's Separation from Service pursuant to Section 6.08 and the resulting amount(s) shall be distributed in a lump sum on the date that is 6 months after the date of the Participant's Separation from Service and the installment stream shall continue from that point in accordance with the applicable schedule.

(e) If the Participant is receiving installment payments for one or more Deferral Subaccounts in accordance with Section 6.02 at the time of his or her Separation from Service, such installment payments shall continue to be paid based upon the Participant's deferral election (but subject to acceleration under Sections 6.04, 6.05 and 6.06 relating to distributions on account of death, Disability and Unforeseeable Emergency).

#### 6.04 Distributions on Account of Death:

(a) Upon a Participant's death, the Participant's Account under the Plan shall be valued as of the first Distribution Valuation Date of the first Plan Year following the Participant's death and the resulting amount shall be distributed in a single lump sum payment on such date. If the Participant is receiving installment payments at the time of the Participant's death, such installment payments shall continue in accordance with the terms of the Participant's deferral election that governs such payments until the time that the lump sum payment is due to be paid under the provisions of the preceding sentence of this Subsection. Immediately prior to the time that such lump sum payment is to be paid all installment payments shall cease and the remaining balance of the Participant's Account shall be distributed at such scheduled payment time in a single lump sum. Amounts paid following a Participant's death, whether a lump sum or continued installments, shall be paid to the Participant's Beneficiary. If some but not all of the persons designated as Beneficiaries by a Participant to receive his or her Account at death predecease the Participant, the Participant's surviving Beneficiaries shall be entitled to the portion of the Participant's Account intended for such pre-deceased persons in proportion to the surviving Beneficiaries' respective shares.

(b) If no designation is in effect at the time of a Participant's death (as determined by the Plan Administrator) or if all persons designated as Beneficiaries have predeceased the Participant, then the payments to be made pursuant to this Section shall be distributed as follows:

(1) If the Participant is married at the time of his/her death, all payments made pursuant to this Section shall be paid to the Participant's spouse; and

(2) If the Participant is not married at the time of his/her death, all payments made pursuant to this Section shall be paid to the Participant's estate.

The Plan Administrator shall determine whether a Participant is "married" and shall determine a Participant's "spouse" based on the state or local law where the Participant has his/her primary residence at the time of death. The Plan Administrator is authorized to make any applicable inquiries and to request any documents, certificates or other information that it deems necessary or appropriate in order to make the above determinations.

(c) Prior to the time the value of the Participant's Account is distributed under this Section, the Participant's Beneficiary may apply for a distribution under Section 6.06 (relating to a distribution on account of an Unforeseeable Emergency).

(d) Any claim to be paid any amounts standing to the credit of a Participant in connection with the Participant's death must be received by the Recordkeeper or the Plan Administrator at least 14 days before any such amount is paid out by the Recordkeeper. Any claim received thereafter is untimely, and it shall be unenforceable against the Plan, the Company, the Plan Administrator, the Recordkeeper or any other party acting for one or more of them.

#### 6.05 Distributions on Account of Disability:

If a Participant incurs a Disability, the Participant's Account shall be distributed in accordance with the terms and conditions of this Section.

(a) Prior to the time that an amount would become distributable under this Article, if a Participant believes he or she is suffering from a Disability, the Participant shall file a written request with the Recordkeeper for payment of the entire amount credited to his or her Account in connection with Disability. After a Participant has filed a written request pursuant to this Section, along with all supporting material that may be required by the Recordkeeper from time to time, the Recordkeeper shall determine within 45 days (or such other number of days as allowed by applicable law if special circumstances warrant additional time) whether the Participant meets the criteria for a Disability. In addition, to the extent required under Section 409A, if the Company becomes aware that the Participant appears to meet the criteria for a Disability, the Company shall advise the Recordkeeper and the Recordkeeper shall proceed to determine if the Participant meets the criteria for a Disability under this Plan, even if the Participant has yet not applied for payment from this Plan. To the extent practicable, the Participant shall be expected to permit whatever medical examinations are necessary for the Recordkeeper to make its determination. If the Recordkeeper determines that the Participant has satisfied the criteria for a Disability, the Participant's Account shall be valued as of the Distribution Valuation Date that occurs on or immediately precedes the date on which the Participant became Disabled and the resulting amount shall be distributed in a single lump sum

payment on the first day of the Plan Year following the end of the Plan Year in which the Disability determination is made.

(b) If the Participant is receiving installment payments at the time of the Participant's Disability, such installment payments shall continue to be paid in accordance with the provisions of the Participant's applicable deferral election until the time that the lump sum payment is due to be paid under the provisions of Subsection (a). Immediately prior to the time that such lump sum payment is scheduled to be paid, all installment payments shall cease and the remaining balance of the Participant's Account shall be distributed at the time specified in Subsection (a) in a single lump sum.

6.06 Distributions on Account of Unforeseeable Emergency:

Prior to the time that an amount would become distributable under Sections 6.02 through 6.05, a Participant or Beneficiary may file a written request with the Recordkeeper for accelerated payment of all or a portion of the amount credited to the Participant's Account based upon an Unforeseeable Emergency. After an individual has filed a written request pursuant to this Section, along with all supporting material that may be required by the Recordkeeper from time to time, the Recordkeeper shall determine within 60 days (or such other number of days that is necessary if special circumstances warrant additional time) whether the individual meets the criteria for an Unforeseeable Emergency. If the Recordkeeper determines that an Unforeseeable Emergency has occurred, the Participant or Beneficiary shall receive a distribution from his or her Account on the date that such determination is finalized by the Recordkeeper. However, such distribution shall not exceed the dollar amount necessary to satisfy the Unforeseeable Emergency (plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution) after taking into account the extent to which the Unforeseeable Emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

6.07 Distributions of Mandatory Deferrals:

This Section 6.07 shall govern the distribution of all Mandatory Deferrals under the Plan. Subject to the last sentence of this Section 6.07, a Participant's Deferral Subaccount(s) for Mandatory Deferrals shall be distributed upon the earliest of the following to occur:

- (a) The Participant's Separation from Service (other than on account of a Disability or death) pursuant to the distribution rules of Section 6.03;
- (b) The Participant's death pursuant to the distribution rules of Section 6.04;
- (c) The Participant's Disability pursuant to the distribution rules of Section 6.05; or
- (d) The occurrence of an Unforeseeable Emergency with respect to the Participant pursuant to the distribution rules of Section 6.06.

Notwithstanding the foregoing, the Board of Directors of the Company may specify different terms for the distribution of Mandatory Deferrals. Such specification may always occur not later than when the Mandatory Deferral becomes irrevocable under Section 4.05(c). Such specification may also occur later, but only to the extent that such later specification satisfies the requirements of Section 4.04 (as if it were an election by the Participant). In addition, to the extent expressly permitted by the Board of Directors, the Participant may make a Second Look Election under Section 4.04.

6.08 Valuation:

In determining the amount of any individual distribution pursuant to this Article, the Participant's Deferral Subaccount shall continue to be credited with earnings and gains (and debited for expenses and losses) as specified in Article V until the Distribution Valuation Date that is used in determining the amount of the distribution under this Article. If a particular Section in this Article does not specify a Distribution Valuation Date to be used in calculating the distribution, the Participant's Deferral Subaccount shall continue to be credited with earnings and gains (and debited for expenses and losses) as specified in Article V until the Distribution Valuation Date on or most recently preceding the date of such distribution. In determining the value of a Participant's remaining Deferral Subaccount following an installment distribution from the Deferral Subaccount (or a partial distribution under Section 6.06 relating to a distribution on account of an Unforeseeable Emergency), such distribution shall reduce the value of the Participant's Deferral Subaccount as of the close of the Distribution Valuation Date on or most recently preceding the payment date for such installment (or partial distribution). The amount to be distributed in connection with any installment payment shall be determined by dividing the value of a Participant's Deferral Subaccount as of such Distribution Valuation Date (determined before reduction of the Deferral Subaccount as of such Distribution Valuation Date in accordance with the preceding sentence) by the remaining number of installments to be paid with respect to the Deferral Subaccount.

6.09 Impact of Section 16 of the Act on Distributions:

The provisions of Section 7.06 shall apply in determining whether a Participant's distribution shall be delayed beyond the date applicable under the preceding provisions of this Article VI.

6.10 Actual Payment Date:

An amount payable on a date specified in this Article VI shall be paid no later than the later of (a) the end of the calendar year in which the specified date occurs, or (b) the 15<sup>th</sup> day of the third calendar month following such specified date. In addition, the Participant (or Beneficiary) is not permitted to designate the taxable year of the payment.

**7.01 Plan Administrator:**

The Plan Administrator is responsible for the administration of the Plan. The Plan Administrator has the authority to name one or more delegates to carry out certain responsibilities hereunder, as specified in the definition of Plan Administrator. To the extent not already set forth in the Plan, any such delegation shall state the scope of responsibilities being delegated and is subject to Section 7.06 below.

**7.02 Action:**

Action by the Plan Administrator may be taken in accordance with procedures that the Plan Administrator adopts from time to time or that the Company's Law Department determines are legally permissible.

**7.03 Powers of the Plan Administrator:**

The Plan Administrator shall administer and manage the Plan and shall have (and shall be permitted to delegate) all powers necessary to accomplish that purpose, including the following:

- (a) To exercise its discretionary authority to construe, interpret, and administer this Plan;
- (b) To exercise its discretionary authority to make all decisions regarding eligibility, participation and deferrals, to make allocations and determinations required by this Plan, and to maintain records regarding Participants' Accounts;
- (c) To compute and certify to the Company the amount and kinds of payments to Participants or their Beneficiaries, and to determine the time and manner in which such payments are to be paid;
- (d) To authorize all disbursements by the Company pursuant to this Plan;
- (e) To maintain (or cause to be maintained) all the necessary records for administration of this Plan;
- (f) To make and publish such rules for the regulation of this Plan as are not inconsistent with the terms hereof;
- (g) To delegate to other individuals or entities from time to time the performance of any of its duties or responsibilities hereunder;
- (h) To change the phantom investment under Article V;

(i) To hire agents, accountants, actuaries, consultants and legal counsel to assist in operating and administering the Plan; and

(j) Notwithstanding any other provision of this Plan except Section 7.07 (relating to compliance with Section 409A), the Plan Administrator or the Recordkeeper may take any action the Plan Administrator determines is necessary to assure compliance with any policy of the Company respecting insider trading as may be in effect from time to time. Such actions may include altering the distribution date of Deferral Subaccounts. Any such actions shall alter the normal operation of the Plan to the minimum extent necessary.

The Plan Administrator has the exclusive and discretionary authority to construe and to interpret the Plan, to decide all questions of eligibility for benefits, to determine the amount and manner of payment of such benefits and to make any determinations that are contemplated by (or permissible under) the terms of this Plan, and its decisions on such matters will be final and conclusive on all parties. Any such decision or determination shall be made in the absolute and unrestricted discretion of the Plan Administrator, even if (1) such discretion is not expressly granted by the Plan provisions in question, or (2) a determination is not expressly called for by the Plan provisions in question, and even though other Plan provisions expressly grant discretion or call for a determination. As a result, benefits under this Plan will be paid only if the Plan Administrator decides in its discretion that the applicant is entitled to them. In the event of a review by a court, arbitrator or any other tribunal, any exercise of the Plan Administrator's discretionary authority shall not be disturbed unless it is clearly shown to be arbitrary and capricious.

#### 7.04 Compensation, Indemnity and Liability:

The Plan Administrator will serve without bond and without compensation for services hereunder. All expenses of the Plan and the Plan Administrator will be paid by the Company. To the extent deemed appropriate by the Plan Administrator, any such expense may be charged against specific Participant Accounts, thereby reducing the obligation of the Company. No member of the Board of Directors (who serves as the Plan Administrator), and no individual acting as the delegate of the Board of Directors, shall be liable for any act or omission of any other member or individual, nor for any act or omission on his or her own part, excepting his or her own willful misconduct. The Company will indemnify and hold harmless each member of the Board of Directors and any employee of the Company (or a Company affiliate, if recognized as an affiliate for this purpose by the Plan Administrator) acting as the delegate of the Board of Directors against any and all expenses and liabilities, including reasonable legal fees and expenses, arising in connection with this Plan out of his or her membership on the Board of Directors (or his or her serving as the delegate of the Board of Directors), excepting only expenses and liabilities arising out of his or her own willful misconduct or bad faith.

7.05 Withholding:

The Company shall withhold from amounts due under this Plan, any amount necessary to enable the Company to remit to the appropriate government entity or entities on behalf of the Participant as may be required by the federal income tax provisions of the Code, by an applicable state's income tax provisions, and by an applicable city, county or municipality's earnings or income tax provisions. Further, the Company shall withhold from the payroll of, or collect from, a Participant the amount necessary to remit on behalf of the Participant any Social Security and/or Medicare taxes which may be required with respect to amounts deferred or accrued by a Participant hereunder, as determined by the Company. In addition, to the extent required by Section 409A, amounts deferred under this Plan shall be reported to the Internal Revenue Service as provided by Section 409A, and any amounts that become taxable hereunder pursuant to Section 409A shall be reported as taxable compensation to the Participant as provided by Section 409A.

7.06 Section 16 Compliance:

(a) In General. This Plan is intended to be a formula plan for purposes of Section 16 of the Act. Accordingly, in the case of a deferral or other action under the Plan that constitutes a transaction that could be covered by Rule 16b-3(d) or (e), if it were approved by the Company's Board of Directors or Compensation Committee ("Board Approval"), it is intended that the Plan shall be administered by delegates of the Board of Directors, in the case of a Participant who is subject to Section 16 of the Act, in a manner that will permit the Board Approval of the Plan to avoid any additional Board Approval of specific transactions to the maximum possible extent.

(b) Approval of Distributions: This Subsection shall govern the distribution of a deferral that (i) is being distributed to a Participant in cash, (ii) is wholly or partly invested in the Phantom PepsiCo Common Stock Fund at the time the deferral would be valued to determine the amount of cash to be distributed to a Participant, (iii) either was the subject of a Second Look Election or was not covered by an agreement or Plan provisions, applicable at the time of the Participant's original deferral election, that any investments in the Phantom PepsiCo Common Stock Fund would, once made, remain in that fund until distribution of the deferral, (iv) is made to a Participant who is subject to Section 16 of the Act at the time the interest in the Phantom PepsiCo Common Stock Fund would be liquidated in connection with the distribution, and (v) if paid at the time the distribution would be made without regard to this subsection, could result in a violation of Section 16 of the Act because there is an opposite way transaction that would be matched with the liquidation of the Participant's interest in the PepsiCo Common Stock Fund (either as a "discretionary transaction," within the meaning of Rule 16b-3(b)(1), or as a regular transaction, as applicable) (a "Covered Distribution"). In the case of a Covered Distribution, if the liquidation of the Participant's interest in the Phantom PepsiCo Common Stock Fund in connection with the distribution has not received Board Approval by the time the distribution would be made if it were not a Covered Distribution, or if it is a discretionary transaction, then the actual distribution to the Participant shall be delayed only until the earlier of:



(1) In the case of a transaction that is not a discretionary transaction, Board Approval of the liquidation of the Participant's interest in the Phantom PepsiCo Common Stock Fund in connection with the distribution, or

(2) The date the distribution would no longer violate Section 16 of the Act, *e.g.*, when the Participant is no longer subject to Section 16 of the Act, or when the time between the liquidation and an opposite way transaction is sufficient.

7.07 Conformance with Section 409A:

Effective from and after January 1, 2009, at all times during each Plan Year, this Plan shall be operated (i) in accordance with the requirements of Section 409A, and (ii) to preserve the status of deferrals under the Pre-409A Program as being exempt from Section 409A, *i.e.*, to preserve the grandfathered status of the Pre-409A Program. In all cases, the provisions of this Section shall apply notwithstanding any contrary provision of the Plan that is not contained in this Section.

**8.01 Claims for Benefits:**

If a Participant, Beneficiary or other person (hereafter, “Claimant”) does not receive timely payment of any benefits which he or she believes are due and payable under the Plan, he or she may make a claim for benefits to the Plan Administrator. The claim for benefits must be in writing and addressed to the Plan Administrator. If the claim for benefits is denied, the Plan Administrator will notify the Claimant within 90 days after the Plan Administrator initially received the benefit claim. However, if special circumstances require an extension of time for processing the claim, the Plan Administrator will furnish notice of the extension to the Claimant prior to the termination of the initial 90-day period and such extension may not exceed one additional, consecutive 90-day period. Any notice of a denial of benefits shall advise the Claimant of the basis for the denial, any additional material or information necessary for the Claimant to perfect his or her claim, and the steps which the Claimant must take to appeal his or her claim for benefits.

**8.02 Appeals of Denied Claims:**

Each Claimant whose claim for benefits has been denied may file a written appeal for a review of his or her claim by the Plan Administrator. The request for review must be filed by the Claimant within 60 days after he or she received the notice denying his or her claim. The decision of the Plan Administrator will be communicated to the Claimant within 60 days after receipt of a request for appeal. The notice shall set forth the basis for the Plan Administrator’s decision. If special circumstances require an extension of time for processing the appeal, the Plan Administrator will furnish notice of the extension to the Claimant prior to the termination of the initial 60-day period and such extension may not exceed one additional, consecutive 60-day period. In no event shall the Plan Administrator’s decision be rendered later than 120 days after receipt of a request for appeal.

**8.03 Special Claims Procedures for Disability Determinations:**

Notwithstanding Sections 8.01 and 8.02 to the contrary, if the claim or appeal of the Claimant relates to Disability benefits, such claim or appeal shall be processed pursuant to the applicable provisions of Department of Labor Regulation Section 2560.503-1 relating to Disability benefits, including Sections 2560.503-1(d), 2560.503-1(f)(3), 2560.503-1(h)(4) and 2560.503-1(i)(3).

**9.01 Amendment of Plan:**

The Nominating and Corporate Governance Committee of the Board of Directors of the Company has the right in its sole discretion to amend this Plan in whole or in part at any time and in any manner, including the manner of making deferral elections, the terms on which distributions are made, and the form and timing of distributions. However, except for mere clarifying amendments necessary to avoid an inappropriate windfall, no Plan amendment shall reduce the amount credited to the Account of any Participant as of the date such amendment is adopted. Any amendment shall be in writing and adopted by the Committee. All Participants and Beneficiaries shall be bound by such amendment. Any amendments made to the Plan shall be subject to any restrictions on amendment that are applicable to ensure continued compliance under Section 409A.

**9.02 Termination of Plan:**

(a) The Company expects to continue this Plan, but does not obligate itself to do so. The Company, acting by the Nominating and Corporate Governance Committee of the Board of Directors, or through its entire Board of Directors, reserves the right to discontinue and terminate the Plan at any time, in whole or in part, for any reason (including a change, or an impending change, in the tax laws of the United States or any State). Termination of the Plan will be binding on all Participants (and a partial termination shall be binding upon all affected Participants) and their Beneficiaries, but in no event may such termination reduce the amounts credited at that time to any Participant's Account. If this Plan is terminated (in whole or in part), the termination resolution shall provide for how amounts theretofore credited to affected Participants' Accounts will be distributed.

(b) This Section is subject to the same restrictions related to compliance with Section 409A that apply to Section 9.01. In accordance with these restrictions, the Company intends to have the maximum discretionary authority to terminate the Plan and make distributions in connection with a change in ownership or effective control of the Company or a change in ownership of a substantial portion of the assets of the Company, all within the meaning of Section 409A (a "Change in Control"), and the maximum flexibility with respect to how and to what extent to carry this out following a Change in Control as is permissible under Section 409A. The previous sentence contains the exclusive terms under which a distribution may be made in connection with any change in control with respect to deferrals made under this 409A Program.

**10.01 Limitation on Participant's Rights:**

Participation in this Plan does not give any Participant the right to be retained in the service of the Company. The Company reserves the right to terminate the service of any Participant without any liability for any claim against the Company under this Plan, except for a claim for payment of deferrals as provided herein.

**10.02 Unfunded Obligation of the Company:**

The benefits provided by this Plan are unfunded. All amounts payable under this Plan to Participants are paid from the general assets of the Company. Nothing contained in this Plan requires the Company to set aside or hold in trust any amounts or assets for the purpose of paying benefits to Participants. Neither a Participant, Beneficiary, nor any other person shall have any property interest, legal or equitable, in any specific Company asset. This Plan creates only a contractual obligation on the part of the Company, and the Participant has the status of a general unsecured creditor of the Company with respect to amounts of compensation deferred hereunder. Such a Participant shall not have any preference or priority over, the rights of any other unsecured general creditor of the Company. No other Company affiliate guarantees or shares such obligation, and no other Company affiliate shall have any liability to the Participant or his or her Beneficiary.

**10.03 Other Plans:**

This Plan shall not affect the right of any Eligible Director or Participant to participate in and receive benefits under and in accordance with the provisions of any other Director compensation plans which are now or hereafter maintained by the Company, unless the terms of such other plan or plans specifically provide otherwise or it would cause such other plan to violate a requirement for tax favored treatment.

**10.04 Receipt or Release:**

Any payment to a Participant in accordance with the provisions of this Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan Administrator, the Recordkeeper and the Company, and the Plan Administrator may require such Participant, as a condition precedent to such payment, to execute a receipt and release to such effect.

**10.05 Governing Law:**

This Plan shall be construed, administered, and governed in all respects in accordance with applicable federal law and, to the extent not preempted by federal law, in accordance with the laws of the State of North Carolina. If any provisions of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

#### 10.06 Gender, Tense and Examples:

In this Plan, whenever the context so indicates, the singular or plural number and the masculine, feminine, or neuter gender shall be deemed to include the other. Whenever an example is provided or the text uses the term “including” followed by a specific item or items, or there is a passage having a similar effect, such passage of the Plan shall be construed as if the phrase “without limitation” followed such example or term (or otherwise applied to such passage in a manner that avoids limitation on its breadth of application).

#### 10.07 Successors and Assigns; Nonalienation of Benefits:

This Plan inures to the benefit of and is binding upon the parties hereto and their successors, heirs and assigns; provided, however, that the amounts credited to the Account of a Participant are not (except as provided in Section 7.05) subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any right to any benefits payable hereunder, including, without limitation, any assignment or alienation in connection with a separation, divorce, child support or similar arrangement, will be null and void and not binding on the Plan or the Company. Notwithstanding the foregoing, the Plan Administrator reserves the right to make payments in accordance with a divorce decree, judgment or other court order as and when cash payments are made in accordance with the terms of this Plan from the Deferral Subaccount of a Participant. Any such payment shall be charged against and reduce the Participant’s Account.

#### 10.08 Facility of Payment:

Whenever, in the Plan Administrator’s opinion, a Participant or Beneficiary entitled to receive any payment hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his or her financial affairs, the Plan Administrator may direct the Company to make payments to such person or to the legal representative of such person for his or her benefit, or to apply the payment for the benefit of such person in such manner as the Plan Administrator considers advisable. Any payment in accordance with the provisions of this Section shall be a complete discharge of any liability for the making of such payment to the Participant or Beneficiary under the Plan.

The 409A Program was first authorized, adopted and approved by the Company’s Board of Directors at its duly authorized meeting held on November 18, 2005. The 409A Program document was then amended and restated by the Board of Directors at the Board of Directors’ duly authorized meeting on September 12, 2008. This 409A Program document as amended and restated was adopted and approved by the Nominating and Corporate Governance Committee of the Board of Directors at the duly authorized meeting of the Nominating and Corporate Governance Committee on March 10, 2011.

Pursuant to the direction and authorization of the Nominating and Corporate Governance Committee of the Company's Board of Directors, the above amended restated Plan is hereby adopted and approved, to be effective as of January 1, 2005 (except as otherwise provided), with amendments through March 10, 2011.

PEPSICO, INC.

By: /s/ Cynthia M. Trudell  
Cynthia M. Trudell  
Executive Vice President and Chief  
Personnel Officer

Date: April 1, 2011

APPROVED:

By: /s/ Christopher Bellanca

PepsiCo, Inc. Law Department

---

## APPENDIX

The following Appendix articles modify particular terms of the Plan. Except as specifically modified in the Appendix, the foregoing main provisions of the Plan shall fully apply in determining the rights and benefits of Eligible Directors, Participants and Beneficiaries (and of any other individual claiming a benefit through or under the foregoing). In the event of a conflict between the Appendix and the foregoing main provisions of the Plan, the Appendix shall govern.

Appendix



## APPENDIX ARTICLE A – TRANSITION PROVISIONS

This Article A provides the transition rules for the Plan that were effective at some time during the period beginning January 1, 2005 and ending December 31, 2008. The time period during which each provision in this Article A was effective shall be provided herein.

### I. Cancellation Elections:

Pursuant to Q&A-20(a) of IRS Notice 2005-1, each Eligible Director shall have the right to cancel his or her election to defer Director Compensation for the 2004-2005 Compensation Year. Such election to cancel must be filed with the Plan Administrator prior to the end of the 2004-2005 Compensation Year and must follow any other procedures and timing requirements established by the Plan Administrator for this purpose (such procedures and timing requirements to be consistent with the requirements of Q&A-20(a)). Any Eligible Director who makes an election to cancel such deferral election shall have the Director Compensation related to such deferral election paid to him or her (plus any applicable earnings or minus any applicable losses) from his or her Account by December 31, 2005 and such amount shall be reported as taxable income to the Eligible Director for the 2005 calendar year.

### II. Modifications to Article IV:

Section 4.03(b) shall read as follows effective for deferral elections made for Compensation Years beginning before October 1, 2009:

(b) Form of Payment. The default form of payment for initial deferral elections is a single lump sum that shall be paid at the time applicable under Article IV. A Participant may only change the default payment from a lump sum to installments by means of a Second Look Election that meets all of the requirements of Section 4.04. Form of payment elections for Mandatory Deferrals are governed by Section 4.05.

### III. Modifications to Article VI:

The rules set forth in this Article A, Section III apply to any distributions that have occurred or would occur based on events, including any Separations from Service, or Specific Payment Dates that occurred prior to January 1, 2009.

For purposes of this Article A, Section III, the term “Retirement” shall mean Separation from Service after attaining eligibility for retirement. A Participant attains eligibility for retirement when he or she attains age 50 while serving as a director on the Board of Directors of the Company.

For purposes of this Article A, Section III, a new Section 6.05 is added as specified below, and existing Sections 6.05 and 6.06 (as set forth in the main portion of the Plan document) are renumbered as Sections 6.06 and 6.07 respectively.

A. For this purpose, Sections 6.01(a)-(f) read as follows:

- (a) Section 6.02 (Distributions Based on a Specific Payment Date) applies when a Participant has elected to defer until a Specific Payment Date and the Specific Payment Date is reached before the Participant's (i) Separation from Service (other than for Retirement), (ii) Disability, or (iii) death. However, if such a Participant Separates from Service (other than for Retirement or death) prior to the Specific Payment Date (or prior to processing of the first installment payment due in connection with the Specific Payment Date), Section 6.03 shall apply. If such a Participant dies prior to the Specific Payment Date, Section 6.04 shall apply to the extent it would result in an earlier distribution of all or part of a Participant's Account. If such a Participant becomes Disabled prior to the Specific Payment Date, Section 6.06 shall apply to the extent it would result in an earlier distribution of all or part of a Participant's Account.
- (b) Section 6.03 (Distributions on Account of a Separation from Service) applies (i) when a Participant has elected to defer until a Separation from Service and then the Participant Separates from Service (other than for Retirement or death), or (ii) when applicable under Subsection (a) above).
- (c) Section 6.04 (Distributions on Account of Death) applies when the Participant dies. If a Participant is entitled to receive or is receiving a distribution under Section 6.02, 6.03 or 6.05 (see below) at the time of his or her death, Section 6.04 shall take precedence over those sections to the extent Section 6.04 would result in an earlier distribution of all or part of a Participant's Account.
- (d) Section 6.05 (Distributions on Account of Retirement) applies when a Participant has elected to defer until a Separation from Service and then the Participant Separates from Service on account of his or her Retirement. Subsections (c) and (e) of this Section provide for when Section 6.04 or Section 6.06 take precedence over Section 6.05.
- (e) Section 6.06 (Distributions on Account of Disability) applies when the Participant becomes Disabled. If a Participant who becomes Disabled dies, Section 6.04 shall take precedence over Section 6.06 to the extent it would result in an earlier distribution of all or part of a Participant's Account. If a Participant is entitled to receive or is receiving a distribution under Section 6.02, 6.03 or 6.05 at the time of his Disability, Section 6.06 shall take precedence over those sections to the extent Section 6.06 would result in an earlier distribution of all or part of a Participant's Account.
- (f) Section 6.07 (Distributions on Account of Unforeseeable Emergency) applies when the Participant incurs an Unforeseeable Emergency prior to when a Participant's Account is distributed under Sections 6.02 through 6.06. In this case, the provisions of Section 6.07 shall take precedence over Sections 6.02

through 6.06 to the extent Section 6.07 would result in an earlier distribution of all or part of the Participant's Account.

B. For this purpose, Section 6.02 reads as follows:

This Section shall apply to distributions that are to be made upon the occurrence of a Specific Payment Date. In the event a Participant's Specific Payment Date for a Deferral Subaccount is reached before (i) the Participant's Disability, or (ii) the Participant's Separation from Service (other than Retirement) or (iii) the Participant's death, such Deferral Subaccount shall be distributed based on the occurrence of such Specific Payment Date in accordance with the following terms and conditions:

- (a) If the Participant has not made a valid Second Look Election that includes installment payments, the Deferral Subaccount shall be valued as of the Distribution Valuation Date that corresponds to the Participant's Specific Payment Date, and the resulting amount shall be paid in a single lump sum.
- (b) If the Participant has made a valid Second Look Election that includes installment payments, the first installment payment shall be paid (based on the schedule elected in the Participant's Second Look Election) on the Specific Payment Date. Thereafter, installment payments shall continue in accordance with the schedule elected by the Participant, except as provided in Sections 6.03, 6.04, 6.06 and 6.07 (relating to distributions on account of a Separation from Service, death, Disability and Unforeseeable Emergency). The amount of each installment shall be determined under Section 6.08. Notwithstanding the preceding provisions of this Subsection, if before the date the first installment distribution is processed for payment the Participant Separates from Service other than for Retirement) or the Participant would be entitled to a distribution in accordance with Sections 6.03, 6.04 or 6.06 (relating to a distribution on account of Separation from Service, death or Disability), the Participant's Deferral Subaccounts that would otherwise be distributed based on such Specific Payment Date shall instead be distributed in accordance with Section 6.04 or 6.05 (relating to distributions on account of death or Disability), whichever applies, but only to the extent it would result in an earlier distribution of the Participant's Subaccounts in the case of Section 6.04 or 6.06.

C. For this purpose, Section 6.03 reads as follows:

A Participant's total Account shall be distributed upon the occurrence of a Participant's Separation from Service (other than for Retirement, Disability or death) in accordance with the terms and conditions of this Section. When used in this Section, the phrase "Separation from Service" shall only refer to a Separation from Service that is not for Retirement, Disability or death.

- (a) Subject to subsections (b) and (c), a Participant's total Account balance, shall be distributed in a single lump sum payment on the first day of the first Plan Year after the date of the Participant's Separation from Service.
- (b) If the Participant incurs a Separation from Service after making a valid Second Look Election (and before the first payment has been processed in accordance with such Second Look Election), each Deferral Subaccount to which the Second Look Election applies shall be distributed in a single lump sum payment on the latest of the following: (1) the first day of the calendar quarter beginning on or after the fifth anniversary of the payment date selected in the Participant's original deferral election under Section 4.03, (2) the first day of the Plan Year following the Separation from Service, or (3) the date applicable under Subsection (c). However, if the Plan Administrator determines that Section 409A would permit a lump sum payment to be made earlier than the date specified in clause (1) of the preceding sentence, then the preceding sentence shall be applied by substituting the earliest date permissible under Section 409A for the date in clause (1). If the Participant's Separation from Service occurs on or after the date the first payment is processed, payment will be made in accordance with the Second Look Election (but subject to acceleration under Sections 6.04, 6.06 and 6.07 relating to distributions on account of death, Disability and Unforeseeable Emergency).
- (c) If the Participant is classified as a Key Employee at the time of the Participant's Separation from Service (or at such other time for determining Key Employee status as may apply under Section 409A), then such Participant's Account shall not be paid, as a result of the Participant's Separation from Service, earlier than the date that is at least 6 months after the Participant's Separation from Service.

D. For this purpose, a new Section 6.05 reads as follows:

6.05 Distributions on Account of Retirement:

If a Participant incurs a Separation from Service on account of his or her Retirement, the Participant's Account shall be distributed in accordance with the terms and conditions of this Section.

- (a) If the Participant's Retirement is prior to the Specific Payment Date that is applicable to a Deferral Subaccount, the Participant's deferral election pursuant to Sections 4.03 or 4.04 (*i.e.*, time and form of payment) shall continue to be given effect, and the Deferral Subaccounts shall be distributed based upon the provisions of Section 6.02.
- (b) If the Participant has selected payment of his or her deferral on account of Separation from Service, distribution of the related Deferral Subaccount shall commence on the first day of the first Plan Year after the date of the Participant's Separation from Service. Such distribution shall be made in a single lump sum payment under Section 4.03. However, if the Participant is classified as a Key

Employee at the time of the Participant's Retirement (or at such other time for determining Key Employee status as may apply under Section 409A), then such Participant's Account shall not be paid, as a result of the Participant's Retirement, earlier than the date that is at least 6 months after the Participant's Retirement.

- (c) If the Participant is receiving installment payments for one or more Deferral Subaccounts in accordance with Section 6.02 at the time of his or her Retirement, such installment payments shall continue to be paid based upon the Participant's Second Look Election (but subject to acceleration under Sections 6.04, 6.06 and 6.07 relating to distributions on account of death, Disability and Unforeseeable Emergency).

IV. Modification to Article VII.

For periods effective from and after January 1, 2005 and on or before December 31, 2008, the language of Section 7.07 shall be replaced in its entirety with the following language:

7.07 Conformance with Section 409A:

At all times during each Plan Year, this Plan shall be operated (i) in accordance with the requirements of Section 409A, and (ii) to preserve the status of deferrals under the Pre-409A Program as being exempt from Section 409A, i.e., to preserve the grandfathered status of the Pre-409A Program. Any action that may be taken (and, to the extent possible, any action actually taken) by the Plan Administrator, the Recordkeeper or the Company shall not be taken (or shall be void and without effect), if such action violates the requirements of Section 409A or if such action would adversely affect the grandfather of the Pre-409A Program. If the failure to take an action under the Plan would violate Section 409A, then to the extent it is possible thereby to avoid a violation of section 409A, the rights and effects under the Plan shall be altered to avoid such violation. A corresponding rule shall apply with respect to a failure to take an action that would adversely affect the grandfather of the Pre-409A Program. Any provision in this Plan document that is determined to violate the requirements of Section 409A or to adversely affect the grandfather of the Pre-409A Program shall be void and without effect. In addition, any provision that is required to appear in this Plan document to satisfy the requirements of Section 409A, but that is not expressly set forth, shall be deemed to be set forth herein, and the Plan shall be administered in all respects as if such provision were expressly set forth. A corresponding rule shall apply with respect to a provision that is required to preserve the grandfather of the Pre-409A Program. In all cases, the provisions of this Section shall apply notwithstanding any contrary provision of the Plan that is not contained in this Section.

PEPSICO, INC. AND SUBSIDIARIES  
 Computation of Ratio of Earnings to Fixed Charges  
 (in millions except ratio amounts, unaudited)

	12 Weeks Ended	
	3/19/11	3/20/10
<b>Earnings:</b>		
Income before income taxes	\$ 1,563	\$ 1,401
Unconsolidated affiliates interests, net	(11)	50
Amortization of capitalized interest	-	1
Interest expense <sup>(a)</sup>	180	154
Interest portion of rent expense <sup>(b)</sup>	43	34
Earnings available for fixed charges	<u>\$ 1,775</u>	<u>\$ 1,640</u>
<b>Fixed Charges:</b>		
Interest expense <sup>(a)</sup>	\$ 180	\$ 154
Capitalized interest	2	2
Interest portion of rent expense <sup>(b)</sup>	43	34
Total fixed charges	<u>\$ 225</u>	<u>\$ 190</u>
Ratio of Earnings to Fixed Charges <sup>(c)</sup>	<u>7.90</u>	<u>8.64</u>

<sup>(a)</sup> Excludes interest related to our reserves for income taxes as such interest is included in provision for income taxes.

<sup>(b)</sup> One-third of net rent expense is the portion deemed representative of the interest factor.

<sup>(c)</sup> Based on unrounded amounts.

## Accountant's Acknowledgement

The Board of Directors and Shareholders  
PepsiCo, Inc.:

We hereby acknowledge our awareness of the use of our report dated April 28, 2011 included within the Quarterly Report on Form 10-Q of PepsiCo, Inc. for the twelve weeks ended March 19, 2011, and incorporated by reference in the following Registration Statements and in the related Prospectuses:

### Description, Registration Statement Number

#### Form S-3

- PepsiCo Automatic Shelf Registration Statement, 333-154314
- PepsiAmericas, Inc. 2000 Stock Incentive Plan, 333-165176
- PBG 2004 Long Term Incentive Plan, PBG 2002 Long Term Incentive Plan, PBG Long Term Incentive Plan, The Pepsi Bottling Group, Inc. 1999 Long Term Incentive Plan and PBG Stock Incentive Plan, 333-165177

#### Form S-8

- The PepsiCo 401(k) Plan for Hourly Employees, 333-150868
- The PepsiCo 401(k) Plan for Salaried Employees, 333-150867
- PepsiCo, Inc. 2007 Long-Term Incentive Plan, 333-142811, 333-166740
- PepsiCo, Inc. 2003 Long-Term Incentive Plan, 333-109509
- PepsiCo SharePower Stock Option Plan, 33-35602, 33-29037, 33-42058, 33-51496, 33-54731, 33-66150 and 333-109513
- Director Stock Plan, 33-22970 and 333-110030
- 1979 Incentive Plan and the 1987 Incentive Plan, 33-19539
- 1994 Long-Term Incentive Plan, 33-54733
- PepsiCo, Inc. 1995 Stock Option Incentive Plan, 33-61731, 333-09363 and 333-109514
- 1979 Incentive Plan, 2-65410
- PepsiCo, Inc. Long Term Savings Program, 2-82645, 33-51514 and 33-60965
- PepsiCo 401(k) Plan, 333-89265
- Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates and the Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates (Teamster Local Union #173), 333-65992
- The Quaker Long Term Incentive Plan of 1990, The Quaker Long Term Incentive Plan of 1999 and The Quaker Oats Company Stock Option Plan for Outside Directors, 333-66632
- The Quaker 401(k) Plan for Salaried Employees and The Quaker 401(k) Plan for Hourly Employees, 333-66634
- The PepsiCo 401(k) Plan for Salaried Employees, 333-76196
- The PepsiCo 401(k) Plan for Hourly Employees, 333-76204
- The PepsiCo Share Award Plan, 333-87526
- PBG 401(k) Savings Program, PBG 401(k) Program, PepsiAmericas, Inc. Salaried 401(k) Plan and PepsiAmericas, Inc. Hourly 401(k) Plan, 333-165106
- PBG 2004 Long Term Incentive Plan, PBG 2002 Long Term Incentive Plan, PBG Long Term Incentive Plan, The Pepsi Bottling Group, Inc. 1999 Long Term Incentive Plan, PBG Directors' Stock Plan, PBG Stock Incentive Plan and PepsiAmericas, Inc. 2000 Stock Incentive Plan, 333-165107

Pursuant to Rule 436 (c) under the Securities Act of 1933 (the "Act"), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP

New York, New York  
April 28, 2011

April 28, 2011

PepsiCo, Inc.  
700 Anderson Hill Road  
Purchase, New York

Ladies and Gentlemen:

We have been furnished with a copy of the quarterly report on Form 10-Q of PepsiCo, Inc. (the "Company") for the twelve weeks ended March 19, 2011, and have read the Company's statements contained in the *Basis of Presentation and Our Divisions* note to the condensed consolidated financial statements included therein. As stated in the *Basis of Presentation and Our Divisions* note, the Company changed its method of accounting for certain U.S. inventories from the last-in, first-out (LIFO) method to the average cost method and states that the newly adopted accounting principle is preferable in the circumstances because the average cost method of accounting for all U.S. foods inventories will improve financial reporting by better matching revenues and expenses and better reflecting the current value of inventory. In accordance with your request, we have reviewed and discussed with Company officials the circumstances and business judgment and planning upon which the decision to make this change in the method of accounting was based.

We have not audited any financial statements of the Company as of any date or for any period subsequent to December 25, 2010, nor have we audited the information set forth in the aforementioned *Basis of Presentation and Our Divisions* note to the condensed consolidated financial statements; accordingly, we do not express an opinion concerning the factual information contained therein.

With regard to the aforementioned accounting change, authoritative criteria have not been established for evaluating the preferability of one acceptable method of accounting over another acceptable method. However, for purposes of the Company's compliance with the requirements of the Securities and Exchange Commission, we are furnishing this letter.

Based on our review and discussion, with reliance on management's business judgment and planning, we concur that the newly adopted method of accounting is preferable in the Company's circumstances.

Very truly yours,  
/s/ KPMG LLP



## CERTIFICATION

I, **Indra K. Nooyi**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PepsiCo, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2011

/s/ Indra K. Nooyi

Indra K. Nooyi  
Chairman of the Board of Directors  
and Chief Executive Officer

## CERTIFICATION

I, **Hugh F. Johnston**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PepsiCo, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2011

/s/ Hugh F. Johnston

Hugh F. Johnston  
Chief Financial Officer

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PepsiCo, Inc. (the "Corporation") on Form 10-Q for the quarterly period ended March 19, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Indra K. Nooyi, Chairman of the Board of Directors and Chief Executive Officer of the Corporation, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: April 28, 2011

/s/ Indra K. Nooyi

\_\_\_\_\_  
Indra K. Nooyi

Chairman of the Board of Directors  
and Chief Executive Officer

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PepsiCo, Inc. (the "Corporation") on Form 10-Q for the quarterly period ended March 19, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hugh F. Johnston, Chief Financial Officer of the Corporation, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: April 28, 2011

/s/ Hugh F. Johnston

Hugh F. Johnston

Chief Financial Officer